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November 14, 2008
VIA FEDERAL EXPRESS

Re: Notice of Kingsport Power Company d/b/a AEP
Appalachian Power
TRA Docket No.: **08-00213**

Dear Chairman Hargett:

We submit herewith the original and thirteen copies of **Exhibit 4** to the Notice of Kingsport Power Company d/b/a AEP Appalachian Power relative to changes in its Purchased Power Adjustment Rider.

Should there be any questions, please direct same to the writer.

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP

William C. Bovender

WCB/slb

cc: Timothy C. Phillips, Assistant Attorney General
State of TN, Office of the Attorney General

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American Electric Power
1 Edison Plaza
Columbus, OH 43215-4373
AEP.com

November 13, 2008

BY HAND DELIVERY

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The Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Appalachian Power Company
Docket No. ER09-____-000

Dear Secretary Bose:

On behalf of Appalachian Power Company (APCo), we herewith tender for filing, pursuant to Sections 35.1 and 35.13 of the Commission's Regulations, the Amended and Restated Interconnection Agreement, dated November 13, 2008 (Amended Agreement), between APCo and Kingsport Power Company (Kingsport). Kingsport has been a wholesale customer of APCo for many years. The Amended Agreement incorporates new rates under which APCo proposes to supply full requirements electric service to Kingsport, beginning January 1, 2009. As discussed more fully herein, APCo respectfully requests that the Commission issue an order by December 12, 2008, accepting the Amended Agreement to be effective on January 1, 2009.

This filing consists of an original and six copies of the following documents:

- 1) This letter of transmittal;
- 2) The Amended and Restated Interconnection Agreement Between Appalachian Power Company and Kingsport Company, which APCo has designated as Appalachian Power Company First Revised FERC Rate Schedule No. 23 (Rate Schedule 23 or Amended Agreement) (a blacklined version also is provided);



- 3) Exhibit I, which provides cost support for the new generation rates contained in Rate Schedule 23;
- 4) Exhibit II, which shows actual sales to, and revenues from, Kingsport for the twelve months ended December 31, 2007, and estimated sales to, and revenues from, Kingsport, for the twelve months ended December 31, 2009, based upon the proposed rates contained in Rate Schedule 23;
- 5) Exhibit III, which is a Certificate of Concurrence in which Kingsport certifies its agreement to take service under the Amended Agreement and requests that the Commission issue an order accepting the Amended Agreement for filing by December 12, 2008; and
- 6) Exhibit IV, which is a Settlement Agreement among APCo, Kingsport and the East Tennessee Energy Consumers (ETEC) under which ETEC agrees to support APCo's request that the Commission approve or accept the Amended Agreement and the rates set forth therein.

I. Background

APCo and Kingsport are electric operating subsidiaries of American Electric Power Company (AEP) and are part of the east zone of the AEP system (AEP-East System). APCo owns and operates facilities for the generation, transmission, and distribution of electric power and energy in the States of Tennessee, West Virginia, and the Commonwealth of Virginia. Kingsport does not own any generating facilities, but does own and operate facilities for the transmission and distribution of electric power and energy to retail customers in the State of Tennessee subject to the jurisdiction of the Tennessee Regulatory Authority (TRA); Kingsport currently serves no wholesale customers. Kingsport has had discussions with the TRA Staff and the Tennessee Attorney General's Consumer Advocate Office about the effect that this filing will have on Kingsport's retail rates.

APCo's and Kingsport's electrical systems are interconnected and for many years have been operated as part of the integrated AEP-East System. The transmission facilities of the AEP-East System are operated under the functional control of PJM Interconnection, L.L.C. (PJM).

APCo currently provides wholesale electric service to Kingsport under a full requirements agreement that originally was entered into on November 19, 1954, and that has been amended thereafter from time to time (1954 Agreement). APCo's current rates to Kingsport are based upon 1992 test-year costs, and were established pursuant to *Appalachian Power Co.*, Opinion No. 423, 83 FERC ¶ 61,335 (1998), *reh'g denied*, Opinion No. 423-A, 87 FERC ¶ 61,036 (1999). For that reason, on March 28, 2008, APCo filed with the Commission, in Docket No. ER08-740, a new agreement for wholesale requirements service to Kingsport, which included formula rates intended to replace the rates set out in the 1954 Agreement. On May 2, 2008, ETEC, which consists of a group of Kingsport's largest retail industrial customers, filed a protest challenging the justness and reasonableness of the rates proposed by APCo. On May 9, 2008, APCo sought to withdraw the March 28th filing to enable APCo, Kingsport, and ETEC to discuss the matters raised in ETEC's protest, and by Letter Order issued July 2, 2008, the Commission accepted APCo's withdrawal. Since that time, the parties have been discussing terms under which APCo would sell wholesale requirements power to Kingsport and certain changes to retail rates that Kingsport would propose to the TRA.

On November 13, 2008, APCo, Kingsport and ETEC entered into a Settlement Agreement setting out the basic terms under which APCo would propose to sell wholesale requirements power and energy to Kingsport. Among other things, that Settlement Agreement (attached as Exhibit IV hereto) sets out the agreed-upon rate structure, including the generation rates (Generation Settlement Rates), for service to Kingsport. These rates, which will be stepped in over 2009 to 2011, produce revenues similar to current revenues produced under various formula rate agreements that APCo has with other non-affiliated wholesale customers (referenced below), and would be stated rates to produce a greater level of certainty for the ETEC companies. As discussed in the next section, the Generation Settlement Rates, the transmission services charges, and other related terms set out in the Settlement Agreement, are set out in the Amended Agreement.

II. The Amended Agreement

Per the Settlement Agreement, APCo, Kingsport, and ETEC agreed that requirements service to Kingsport would continue to be provided under the basic framework of the 1954 Agreement, as amended. As shown in the blacklined version, the Amended Agreement replaces certain introductory provisions with more current language and adds the new rates agreed to in the Settlement Agreement. In accordance with Order No. 614, Rate Schedule 23 is an amended and restated version of the 1954 Agreement, conformed to reflect amendments to date and the changes agreed to in the Settlement Agreement.

A. The Rate Structure

The Generation Settlement Rates in Rate Schedule 23 are designed to recover APCo's total annual base generation revenue requirement (total revenues less fuel and transmission service revenues) through generation demand, energy, fuel, and back-up charges. The Generation Settlement Rates will increase the generation portion of the rates currently charged under the 1954 Agreement (Current Rates) as follows: The 2009 Generation Settlement Rates are designed to produce annual charges that are \$24 million higher than those under the Current Rates. The 2010 Generation Settlement Rates are designed to produce annual charges that are \$27 million higher than those under the Current Rates. The 2011 Generation Settlement Rates are designed to produce annual charges that are \$36 million higher than those under the Current Rates. These increases are allocated 95% to APCo's demand charges and 5% to APCo's energy charge. The per-unit Generation Settlement Rates for each year are set out in Attachment A of the Settlement Agreement and in Section 8.01 of the Amended Agreement.

Attachment A to the Settlement Agreement demonstrates that the Generation Settlement Rates produce the agreed-upon stepped increases in generation charges. The proposed Off-Peak Excess Generation Demand Rate is not shown on Attachment A to the Settlement Agreement because no Kingsport retail customer currently takes such service. The Off-Peak Excess Generation Demand Rate contained in the Amended Agreement is 10% of the Generation Demand Rate, consistent with the design of the Off-Peak Excess Generation Demand Rate currently in effect in the 1954 Agreement. Because Kingsport's retail customers only subscribed to back-up levels A and B in 2007, Attachment A to the Settlement Agreement

does not include proposed new rates for back-up levels C through F. The proposed new rates for these back-up levels, as contained in the Amended Agreement, were calculated as the corresponding percentage of the Generation Demand Change (*e.g.*, the 15% back-up level is 15% of the Generation Demand Charge).

The maintenance service provisions in the 1954 Agreement have been deleted, as no Kingsport retail customer takes such service. In addition to the Generation Settlement Rates described above, the Settlement Agreement provides that Kingsport will pay for Network Integration Transmission Service and other applicable transmission-related services (other than generation-based Ancillary Services), as arranged by the AEP East System, in accordance with the provisions of the PJM Open Access Transmission Service Tariff (or other applicable rate schedule), as such rate schedules, which may be revised from time to time, apply to the AEP East System companies. The Amended Agreement reflects this provision in Section 8.01.

The Amended Agreement implements the agreed-upon rates set out in the Settlement Agreement, including the stepped increase in generation rates. Section 8.01 of Rate Schedule 23 specifies that the rates in effect on December 31, 2011, will continue in effect through the initial term of the Amended Agreement, and provides further that either party shall have the unilateral right under Section 205 or 206, as applicable, to request that the Commission change the generation rates, provided that such change be made effective on and after January 1, 2012. Section 8.01 of the Amended Agreement further provides that the Commission may not require any change to the Amended Agreement that would become effective prior to January 1, 2012, unless the Commission determines that such change is required under the public interest standard set forth in *Morgan Stanley Capital Group Inc. v. Public Utility District No. 1 of Snohomish County*, 128 S.Ct. 2733, 2740 (2008). If a non-contracting third party requests that the Commission require a change be made to the Amended Agreement that would be effective prior to January 1, 2012, the Commission shall review such request under the most stringent standard permissible under then-current applicable law. The Settlement Agreement provides that, notwithstanding the rate change provisions in the Amended Agreement, ETEC shall not have the unilateral right under Section 206 to request that the Commission change the Generation Settlement Rates where such change would become effective prior to January 1, 2012.

B. Cost Support for the Settlement Rates

APCo is supporting the total annual base generation revenue requirement provided for in the Settlement Agreement by reference to cost-of-service data of the type previously submitted to FERC to support APCo's cost-based formula rate agreements. APCo presents that support in Exhibit I, which shows the derivation of a generation demand and energy charge applicable to Kingsport based on APCo's Form 1 data for the 12 months ending on December 31, 2007, (with the exception of plant-related balances), and Kingsport consumption data based on that same twelve-month period. The plant-related balances (including accumulated depreciation and accumulated deferred income taxes) used in Exhibit I are as of June 30, 2008, to reflect the substantial investment made by APCo, primarily in environmental equipment such as scrubbers, which have been recorded on APCo's books during the first six months of this year. APCo's 2008 expenses likewise have increased, but APCo does not yet have data of adequate quality for these items, so Exhibit I conservatively reflects 2007 expense data.

Exhibit I is consistent with information provided by APCo to support full requirements formula rate agreements that it has entered into with non-affiliates and that the Commission has accepted since March 2006.¹ The Commission previously has permitted APCo and its affiliated utility operating companies to charge affiliates, such as Kingsport, rates that were based on Commission-approved agreements with non-affiliates. *See, e.g., Appalachian Power Co.*, 40 FERC ¶ 61,182 (1987) and *Indiana Michigan Power Co.*, Letter Order, Docket Nos. ER90-269-000, *et al.* (June 18, 1991). This filing presents an analogous situation.

The cost-of-service data set out in Exhibit I demonstrate that APCo could cost-justify an annual increase of \$28,838,457 over the generation revenues currently being collected under the 1954 Agreement. This represents an overall increase of \$86,515,371 over the period 2009-2011. Consistent with the Settlement Agreement, the Generation Settlement

¹ *See, e.g., Appalachian Power Co.*, Letter Orders, Docket No. ER06-848-000 (May 26, 2006); Docket No. ER06-905-000 (June 8, 2006); Docket No. ER08-307-000 (Jan. 9, 2008); Docket No. ER06-922-000 (June 9, 2006); Docket No. ER08-306-000 (Jan. 10, 2008); Docket No. ER06-1049-000 (July 11, 2006); Docket No. ER08-308-000 (June 10, 2008); and Docket No. ER07-1111-000 (Aug. 3, 2007).

Rates are designed to produce additional generation revenues of \$24 million in 2009, \$27 million in 2010, and \$36 million in 2011.

The stepped increase of Generation Settlement Rates is a negotiated outcome intended to enable APCo to recover its current costs while at the same time stepping in the increase to Kingsport, and ultimately its retail customers, including the ETEC companies, over three years. The Commission previously has ruled that nothing in the Federal Power Act or the Commission's regulations prohibits a seller from implementing such a stepped or phased increase in rates. *See, e.g., Indiana & Michigan Electric Co.*, 20 FERC ¶ 61,079 at 61,170 (1982); *Pacific Gas & Electric Co.*, 17 FERC ¶ 61,069 at 61,150 (1981).

As discussed above, the overall revenue increase during 2009 and 2010 is about \$6.7 million below the increase justified by the cost-of-service data set out in Exhibit I (\$51 million compared with \$57.67 million), while the revenue increase in 2011 is about \$7.2 million above the cost-justified increase (\$36 million compared with \$28.83 million). Rather than viewing the Agreement as establishing three distinct rate periods, however, the Generation Settlement Rates should be reviewed over the three-year horizon covered by the Settlement Agreement. Reviewing the Agreement in this fashion is analogous to the "life-of-the-contract" approach that the Commission has employed in the context of Section 206 challenges directed to the rates in effect toward the end of the term of a fixed-rate contract. *See French Broad Electric Membership Corp. v. Carolina Power & Light Co.*, 92 FERC ¶ 61,283 at 61,967 (2000), citing *San Diego Gas & Electric Co. v. Public Service Co. of New Mexico*, 85 FERC ¶ 61,414 at 62,574, *on reh'g*, 86 FERC ¶ 61,253 at 61,912 (1999) (recognizing that the benefits and burdens of a long-term contract must be viewed over the term of the contract); *see also San Diego Gas & Electric Co. v. Sellers of Energy and Ancillary Service*, 99 FERC ¶ 61,160 at 61,652 n.20, citing *French Broad*.²

² In cases involving fixed-rate contracts, the Commission's analysis appropriately spans the entire term of the contracts. Because the rates under the Amended Agreement are fixed only for the first three years, it is appropriate to analyze the rates over that period. With respect to rates in effect after 2011, ETEC will have full Section 206 rights to challenge APCo's rates based on cost-of-service data for the appropriate time period.

As noted above, during the three years covered by the Settlement Agreement, the Generation Settlement Rates would produce an overall increase in generation revenue that tracks the cost-of-service data set out in Exhibit I. This is shown in the net present value (NPV) table set out below. Using an assumed discount rate of 8.4063%, the NPV of the agreed-upon revenue increases for 2009 through 2011, is \$73,371,731, while the net present value based on the Exhibit I benchmark data, using the same discount rate, is \$73,778,000.

Exhibit I Data

Year	Rate	Period	Revenue w Back-up	Present Value
1	8.4063%	1	28,838,457	26,602,197
2	8.4063%	2	28,838,457	24,539,346
3	8.4063%	3	28,838,457	22,636,457
				73,778,000

Amended Agreement

Year	Rate	Period	Revenue w Back-up	Present Value
1	8.4063%	1	24,000,000	22,138,935
2	8.4063%	2	27,000,000	22,974,958
3	8.4063%	3	36,000,000	28,257,838
				73,371,731

These NPV calculations demonstrate that during the three years covered by the Settlement Agreement, the Generation Settlement Rates set out in Section 8.01 of the Amended Agreement have been designed so that APCo will not recover in excess of a 100 percent contribution to its generation costs. See *San Diego Gas & Electric Co. v. Public Service Co. of New Mexico*, 86 FERC ¶ 61,253 at 61,913, n.12 (1999).

III. COMPLIANCE WITH 18 C.F.R. § 35.13

In compliance with the requirements of 18 C.F.R. § 35.13, APCo states as follows:

A. General Information – 18.C.F.R. § 35.13(b)

The documents enclosed with this filing include this Transmittal Letter and the documents listed on pages 1 and 2 of this Transmittal Letter. The names of the persons upon whom this filing has been served are set out below in Section IV. A description of and the reasons for the rate changes proposed are discussed in this Transmittal Letter. APCo further states that there are no costs included in the cost-of-service data that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

As provided in Section 1.2 of the Settlement Agreement, APCo is authorized to represent that the ETEC supports APCo's request that the Commission approve or accept the Amended Agreement and the rates set forth therein. The Settlement Agreement provides, however, that ETEC does not agree to any specific rate principle or the reasonableness of any specific cost item shown in Exhibit I.

B. Cost of Service Information

As discussed above, APCo herewith submits cost-of-service data in Exhibit I that provide detailed information sufficient to permit the Commission to assess the Generation Settlement Rates. APCo requests waiver of those provisions in Section 35.13 that would require APCo to submit the additional cost-of-service data specified in subsections (b) through (h). The bases for this request are: The Amended Agreement provides for service to a single customer, Kingsport, and Kingsport has no wholesale customers. Second, the rates set out in the Amended Agreement are the direct result of APCo's and Kingsport's negotiations with Kingsport's largest industrial customers, represented by ETEC. And, the rates that are stepped in over 2009-2011 under the Amended Agreement recover a similar level of costs as the rates currently being charged other APCo wholesale customers under various APCo formula rate agreements accepted by and on file with the Commission.

In accordance with Section 35.13(c)(1), Exhibit II compares revenues from APCo's sales and service to Kingsport under the 1954 Agreement, for the twelve months ending December 31, 2007, with APCo's projected revenues under the Amended Agreement, for the twelve months ending December 31, 2009, based on Kingsport's 2007 billing determinants at the delivery points at which service is provided under the Amended

The Honorable Kimberly D. Bose
November 13, 2008
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Agreement. The magnitude of the increases reflects the fact that the Current Rates are based on 1992 costs.

C. Effective Date

APCo requests waiver of Section 35.3 as necessary to permit the Amended Agreement be accepted for filing to become effective on January 1, 2009, as provided in the Settlement Agreement. In the Certificate of Concurrence included as Exhibit III, Kingsport requests that the Commission issue an order accepting Rate Schedule 23 for filing by December 12, 2008. Contemporaneously with this filing, Kingsport filed with the TRA to pass through the proposed increase in its wholesale purchased power costs from APCo to Kingsport's retail customers, by means of its Purchased Power Adjustment Rider (PPAR). Kingsport requested that the TRA consider Kingsport's filing at the TRA's last conference of this year, scheduled to be held Monday, December 15, 2008, so that the PPAR, per its terms, could be changed on the same date that APCo has proposed that the wholesale increase under the Amended Agreement becomes effective. A Commission ruling by Friday, December 12th will permit Kingsport to represent to the TRA that the PPAR reflects wholesale rates accepted by this Commission.

IV. CORRESPONDENCE AND SERVICE

APCo requests that any correspondence or communications with respect to this filing be sent to the following:

Mr. J. T. Salway
American Electric Power
Service Corporation
155 W. Nationwide Boulevard
Columbus, Ohio 43215
614.583.6110
614.583.1606 [fax]
jtsalway@aep.com

The Honorable Kimberly D. Bose
November 13, 2008
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James R. Bacha, Esq.
American Electric Power
Service Corporation
1 Riverside Plaza, 29th Floor
Columbus, Ohio 43215
614.716.1615
614.716.2959 [fax]
jrbacha@aep.com

A copy of this filing has been served on counsel for ETEC, Kingsport and the TRA at the following addresses:

Edward L. Petrini, Esq.
Christian & Barton, L.L.P.
909 East Main Street, Suite 1200
Richmond, Virginia 23219


Kingsport Power Company
1 Riverside Plaza
Columbus, Ohio 43215

Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

If you have any questions concerning this filing, please do not hesitate to contact the undersigned.

Respectfully submitted,

APPALACHIAN POWER COMPANY

By: 
James R. Bacha
Its Attorney

JRB:mjl

Attachments

Amended and Restated
Interconnection Agreement Between
Appalachian Power Company and
Kingsport Power Company
(Clean version)

AMENDED AND RESTATED
INTERCONNECTION AGREEMENT
BETWEEN
APPALACHIAN POWER COMPANY
AND
KINGSPORT POWER COMPANY

DATED NOVEMBER 13, 2008

Issued by: Dana E. Waldo-President
Appalachian Power Company
Issued on: November 13, 2008

Effective: January 1, 2009

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Issued by: Dana E. Waldo-President
Appalachian Power Company
Issued on: November 13, 2008

Effective: January 1, 2009

0 01 THIS AGREEMENT, made and entered into this 13th day of November, 2008, by and between APPALACHIAN POWER COMPANY (herein sometimes called Appalachian Company), a Virginia corporation, and KINGSPORT POWER COMPANY (herein sometimes called Kingsport Company), a Tennessee corporation,

W I T N E S S E T H ,

T H A T :

0 02 WHEREAS, Appalachian Company and Kingsport Company are electric operating company subsidiaries of American Electric Power Company, Inc. (AEP) and part of the east zone of the AEP System (AEP-East System); and

0 03 WHEREAS, Appalachian Company owns and operates electric facilities in Tennessee, Virginia and West Virginia, and Kingsport Company owns and operates electric facilities in Tennessee; and

0 04 WHEREAS, Kingsport Company does not own any electric generating facilities; and

0 05 WHEREAS, the parties' systems are now and have been for many years interconnected through their respective transmission lines at a number of points (hereby designated and herein called Interconnection Points) in or near Kingsport, Tennessee and at the Virginia-Tennessee boundary; and

0 06 WHEREAS, the transmission facilities of the AEP-East System are operated under the functional control of PJM Interconnection LLC (PJM); and

0 07 WHEREAS, Appalachian Company is now supplying the full electric power and energy requirements of Kingsport Company pursuant to an agreement between the parties dated November 19, 1954, as amended (the 1954 Agreement); and

0 08 WHEREAS, the parties desire to amend the 1954 Agreement to modify the terms and conditions pursuant to which the sale and purchase of electric power and energy will be conducted between them; and

0 09 WHEREAS, Appalachian Company and Kingsport Company acknowledge that any amendment to the 1954 Agreement requires the parties to restate the 1954 Agreement, as amended, to comply with Order No. 614 of the Federal Energy Regulatory Commission (Commission)

0 10 NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein set forth, the parties agree as follows:

Issued by: Dana E. Waldo-President
Appalachian Power Company
Issued on: November 13, 2008

Effective: January 1, 2009

ARTICLE 1

PROVISIONS FOR, AND CONTINUITY OF INTERCONNECTED OPERATION

1.01 Throughout the duration of this agreement the systems of the parties shall be operated in continuous synchronism through each of the various lines interconnecting their respective systems; provided, however, if synchronous operation of the systems through a particular line or lines becomes interrupted because of reasons beyond the control of either party or because of scheduled maintenance that has been agreed to by both parties, the parties shall cooperate so as to remove the cause of such interruption as soon as practicable and restore the affected line or lines to normal operating conditions.

1.02 Each party shall keep, or shall cause to be kept, the portions of the lines interconnecting their respective systems, together with all associated facilities and appurtenances, that are located on their respective sides of the Interconnection Points in a suitable condition of repair at all times in order that said lines will operate in a reliable and satisfactory manner and that reduction in the capacity of said lines will be avoided.

ARTICLE 2

SERVICES TO BE RENDERED

2.01 Appalachian Company shall sell and deliver and Kingsport Company shall take and pay for electric power (herein called Firm Power) and associated electric energy (herein called Firm Energy) as hereinbelow described. Commencing January 1, 2009, and thereafter throughout the duration of this agreement, Appalachian Company shall be required to stand ready at all times, subject to the provisions of this agreement, to deliver to Kingsport Company Firm Power and Firm Energy in amounts as required by Kingsport Company.

ARTICLE 3

SERVICE CONDITIONS

3.01 The parties shall maintain and operate their respective systems so as to minimize, in accordance with sound operating practice, the likelihood of disturbance originating in either system which might cause impairment to the service of the system of the other party or any system interconnected with the system of the other party.

Issued by: Dana E. Waldo-President
Appalachian Power Company
Issued on: November 13, 2008

Effective: January 1, 2009

ARTICLE 4

ENERGY TRANSFER

4.01 In carrying out the operation of their respective systems interconnected as provided for under this agreement, energy being received by a portion of one party's system from another portion of its system or from the system of another interconnected company, or energy being delivered by a portion of one party's system to another portion of its system or to the system of another interconnected company, may flow over the transmission facilities of the other party as a natural result of the physical and electrical characteristics of the interconnected network of transmission lines of which the transmission systems of the parties are a part. In respect to such flow of energy (herein called energy transfer) the parties agree that such energy transfer over their respective transmission facilities shall be permitted when such transfer occurs, and, except as may be specifically agreed to otherwise by the parties, neither party shall make a charge at any time to the other party to permit such energy transfer or for electrical transmission losses that may result therefrom.

ARTICLE 5

DELIVERY POINTS, METERING POINTS, AND METERING

Delivery Points

5.01 All energy delivered shall be of the character commonly known as three-phase sixty-cycle energy, and shall be delivered at the various points where the systems of the parties are interconnected at the nominal unregulated voltage designated for such Interconnection Points.

Metering Points

5.02 Power and energy supplied and delivered by either party to the other party shall be measured by suitable metering equipment to be provided, owned, and maintained by the parties at such metering points as agreed upon between them.

Metering

5.03 Measurements of power and energy for the purpose of effecting settlements under this agreement shall be made by standard types of electrical meters. The meters shall be sealed and the seals shall be broken only upon occasions when the meters are to be tested or adjusted. For the purpose of checking the records of the metering equipment installed by either party, the other party shall have the right to install check metering equipment at metering points.

Metering equipment so installed by one party on the premises of another party shall be owned and maintained by the party installing such equipment. Upon termination of this agreement the party owning such metering equipment shall remove it from the premises of the other party. Authorized representatives of both parties shall have access at all reasonable hours to the premises where the meters are located and to the records made by the meters.

5.04 The aforesaid metering equipment shall be tested by the owner at suitable intervals and its accuracy of registration maintained in accordance with good utility practice. On request of either party special tests shall be made at the expense of the party requesting such special test. Representatives of both parties shall be afforded opportunity to be present at all routine or special tests and upon occasions when any readings, for purposes of settlements hereunder, are taken from meters not bearing an automatic record.

5.05 If at any test of metering equipment an inaccuracy shall be disclosed exceeding two per cent (2%), the account between the parties for service theretofore delivered shall be adjusted to correct for the inaccuracy disclosed over a period of thirty (30) days prior to the date of the test, but not for a longer period than such inaccuracy may be determined to have existed. Should the metering equipment as provided for under section 5.02 above fail to register at any time, the power and energy delivered shall be determined from the check meters, if installed, or otherwise shall be determined from the best available data.

ARTICLE 6 -

RECORDS AND STATEMENTS

Records

6.01 In addition to meter records to be kept by the parties, as provided for under Article 5, the parties shall keep in duplicate such log sheets and other records as may be needed to afford a clear history of the various deliveries of energy made by one party to the other and of the kilowatt clock-hour integrated demands delivered by one party to the other. In maintaining such records the parties shall effect such segregations and allocations of demands and energy delivered into classes representing the various services and conditions as may be needed in connection with settlements under this agreement and/or any other agreements between the parties. The originals of log sheets and other records shall be retained by the party keeping the records and the duplicates shall be delivered weekly to the other party except as the parties may agree upon a different time interval for such delivery.

6.02 As promptly as practicable after the end of each calendar month Appalachian Company shall render to Kingsport Company a statement setting forth the power and energy

transactions between the parties during such month in such detail and with such segregations as may be needed for operating records or for settlement under the provisions of this agreement and/or any other agreement between the parties

6.03 The Operating Committee, as provided for under Article 13, shall establish, and from time to time amend, and modify, if necessary, the power and energy accounting procedure requisite to the maintaining of clock-hour records needed to afford a clear history of the various deliveries made by one party to the other, in order that the power and energy delivered and/or received for each clock-hour by each party to and/or by the other party may be properly segregated and allocated for their respective accounts. The parties agree that the segregations and allocations of power and energy so determined and the interpretations of the Operating Committee in classifying such power and energy into categories for the particular services or conditions under which supply is made as provided for by this agreement shall be used for the purpose of effecting settlements hereunder.

ARTICLE 7

DEFINITION OF BILLING FACTORS

7.01 The parties agree to the definitions of the terms as hereinbelow set forth, viz :

- 7.011 Contract Year – Each calendar year shall be taken as a Contract Year
- 7.012 System Demand – The total integrated kilowatt (KW) clock-hour load of Kingsport Company's system, i.e., the sum of the net number of kilowatt-hours of input to Kingsport Company's system by Appalachian Company at the Interconnection Points occurring in the On-Peak Period, as designated in Section 7.018, adjusted when necessary for use of back-up and/or surplus power service as designated in Sections 18.04 and 19.06
- 7.013 System Maximum Demand – For a calendar month, the single highest System Demand for such month
- 7.014 System Requirement – For a calendar month, the System Maximum Demand for such month
- 7.015 Firm Demand – For a calendar month, the System Requirement for such month taken to the nearest even one thousand (1,000) kilowatts, in no event, however, shall said Firm Demand be less than thirty thousand (30,000) kilowatts

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Appalachian Power Company
Issued on: November 13, 2008

Effective: January 1, 2009

- 7 016 Average Demand -- For a Contract Year, the numerical average, taken to the nearest even one thousand (1,000) kilowatts, of the monthly Firm Demands for such Contract Year, in no event, however, shall said Average Demand be less than eighty-five per cent (85%) of the highest Average Demand of any preceding Contract Year
- 7 017 Billing Energy -- For a calendar month, the sum of the number of kilowatt-hours of input to Kingsport Company's system by Appalachian Company at the Interconnection Points less that energy determined to be Surplus Energy under Section 19 07
- 7 018 On-Peak Period -- The hours from 6 a m to 9 p m , local time (EDT), for all weekdays, Monday through Friday
- 7 019 Off-Peak Period -- The hours from 9 p m to 6 a m , local time (EDT), for all weekdays, all hours of the day on Saturdays and Sundays and the legal holidays of New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day
- 7 020 System Off-Peak Demand -- The total integrated kilowatt (KW) clock-hour load of Kingsport Company's system, i e , the sum of the number of kilowatt-hours of input to Kingsport Company's system by Appalachian Company at the Interconnection Points occurring in the Off-Peak Period, as designated in Section 7 019, adjusted when necessary for use of back-up service as designated in Section 18 04
- 7 021 System Off-Peak Excess Demand -- For a calendar month, the amount by which the System Off-Peak Demand exceeds the System Demand taken to the nearest even one thousand (1,000) kilowatts

ARTICLE 8
COMPENSATION

Monthly Charge

8.01 For firm power and energy associated therewith:

	2009	2010	2011
<u>Generation Demand Charge</u> For each kilowatt of Firm Demand	\$9.872/kW	\$10.544/kW	\$12.561/kW
<u>Off-Peak Excess</u> <u>Generation Demand Charge</u> For each kilowatt of System Off-Peak Excess Demand	\$0.987/kW	\$1.054/kW	\$1.256/kW
<u>Generation Energy Charge</u> (includes Fuel Base) For each kilowatt-hour of Billing Energy taken	\$0.0196774/kWh	\$0.0197445/kWh	\$0.0199460/kWh

Neither Appalachian Company nor Kingsport Company shall have a unilateral right, under Section 205 or 206 of the Federal Power Act (Section 205 or 206), respectively, to request that FERC change the generation rates set forth above or in Section 18.05, where such change would become effective prior to January 1, 2012. The parties further agree that (i) FERC may not require any change to this agreement that would become effective prior to January 1, 2012, unless FERC determines that such change is required under the public interest standard set forth in *Morgan Stanley Capital Group Inc. v. Public Utility District No. 1 of Snohomish County*, and (ii) if a non-contracting third party requests that FERC require a change be made to this agreement that would be effective prior to January 1, 2012, FERC shall review such request under the most stringent standard permissible under then-current applicable law.

The generation rates in effect for 2011, as set forth above and in Section 18.05, shall continue in effect beyond December 31, 2012, absent FERC action; provided, however, that either Appalachian Company or Kingsport Company shall have the right to file an application or complaint with the FERC, for a change in such wholesale generation rates, under Section 205 or 206, respectively, to be effective on and after January 1, 2012.

Kingsport Company shall pay for Network Integration Transmission Service (NITS) and other applicable transmission-related services (other than generation-based Ancillary Services), as arranged by the AEP East System, in accordance with the provisions of the PIM Open Access Transmission Service Tariff (OATT), or other applicable FERC rate schedules, as such rate schedules, which may be revised from time to time, apply to the AEP East system companies.

Issued by: Dana E. Waldo-President
Appalachian Power Company
Issued on: November 13, 2008

Effective: January 1, 2009

Minimum Annual Demand Charge

8.02 For the supply of Firm Power, the aggregate of the monthly demand charges for Firm Demand billed to Kingsport Company by Appalachian Company pursuant to Section 8.01 above during any Contract Year shall not be less than the Minimum Annual Demand Charge which is the product of the Average Demand for the year times the Generation Demand Charge set forth in Section 8.01 above times the figure representing the number of months of such Contract Year. As promptly as practicable after the expiration of each Contract Year, the aggregate of the monthly Generation Demand Charges for Firm Demand billed to Kingsport Company during such year pursuant to Section 8.01 above shall be determined. If the total so found to have been billed is less than the Minimum Annual Demand Charge, Kingsport Company shall pay Appalachian Company an amount equal to the difference between the Minimum Annual Demand Charge for such Contract Year and said total.

ARTICLE 9

RATE ADJUSTMENTS

Fuel Adjustment Clause

9.01 When the unit cost of fuel (Fm/Sm) used to meet Appalachian Company's Net Energy Requirement less losses (Sm) is above or below the base unit cost of 14.7126 mills per kilowatthour (Fb/Sb) an additional charge or credit equal to the product of the Billing Energy taken under Section 8.01 and a Fuel Adjustment Clause Factor "A" shall be made, where "A", calculated to the nearest 0.0001 mill per kilowatthour, is as defined below:

$$\text{Adjustment Factor (A)} = \frac{Fm}{Sm} - \frac{Fb}{Sb}$$

In the above formula "F" is the expense of fossil and nuclear fuel in the base (b) and current (m) periods; and "S" is the KWH sales in the base and current periods, all as defined below:

Fuel Cost (F) shall be the cost of:

- (a) fossil and nuclear fuel consumed in Appalachian Company's plants and Appalachian Company's share of fossil and nuclear fuel consumed in jointly owned or leased plants;
- (b) the actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in (c) below:

- (c) the net energy cost of energy purchases, exclusive of capacity or demand charges (irrespective of the designation assigned to such transaction) when such energy is purchased on an economic dispatch basis (included therein shall be such costs as the charges for economy energy purchases and the charges as a result of scheduled outage, all such kinds of energy being purchased by Appalachian Company to substitute for its own higher cost energy); and less
- (d) the cost of fossil and nuclear fuel recovered through inter-system sales including the fuel costs related to economy energy sales and other energy sold on an economic dispatch basis

Sales (S) shall be equated to the sum of (a) generation, (b) purchases, (c) interchange-in, less (d) energy associated with pumped storage operations, less (e) inter-system sales referred to in (d) above, less (f) total system losses

Sales (S) shall be modified to reflect losses of 2.7972% associated with Appalachian Company's deliveries to Kingsport Company

9.02 The adjustment factor developed according to the preceding paragraphs may be further modified to allow the recovery of gross receipts or other similar revenue-based tax charges occasioned by the fuel adjustment revenues

9.03 The cost of fossil fuel shall include no items other than those listed in Account 151 of the Commission's Uniform System of Accounts for Public Utilities and Licensees. The cost of nuclear fuel shall be that as shown in Account 518, except that if Account 518 also contains any expense for fossil fuel which has already been included in the cost of fossil fuel, it shall be deducted from this account

ARTICLE 10

TAXES

10.01 If, at any time during the term hereof, there should be levied and/or assessed against Appalachian Company any tax by any taxing authority in respect to the power and/or energy generated, purchased, sold, imported, exported, transmitted, interchanged, or exchanged by Appalachian Company in addition to or different from the forms of such taxes now being levied or assessed against Appalachian Company, or any increase or decrease in the rate of such existing or future taxes, and such taxes or changes in such taxes should result in increasing or decreasing the cost to Appalachian Company in carrying out the provisions of this agreement, then in such event adjustments shall be made in the rates and charges for power and energy furnished hereunder to make allowance for such taxes and changes in such taxes in an equitable manner. The taxes referred to above in this Article shall not include property, franchise or net income taxes.

ARTICLE 11

BILLINGS AND PAYMENTS

11.01 Bills shall be rendered monthly. Bills rendered under this agreement are due and payable when rendered. If all or any part of a bill shall remain unpaid for more than twenty (20) days after the date of bill, there shall be due and payable to Appalachian Company, in addition to the unpaid balance, simple interest computed as follows: the prime interest rate in effect at the Manufacturers Hanover Trust Company, New York, New York, or its successor, on the last day of the month for which the delinquent bill was rendered. In the event of stoppage or failure of any meter to register the full amount of energy demanded, Kingsport Company will be billed for such period on an estimated consumption based upon its use of energy and/or demand for power in a similar period of like use, or based upon other data available to Appalachian Company.

If Kingsport Company disputes the accuracy of a bill, timely payment shall be made of the bill as rendered and the parties shall use their best efforts to resolve the dispute and shall make such adjustment, if any, by credit or additional charge on the next bill rendered. If the parties are unable to resolve such dispute, the parties may take such action as they deem necessary to protect their interests. The existence of a dispute as to any bill shall not relieve either party of compliance with the terms of this agreement.

ARTICLE 12

CONTINUITY OF SERVICE

12.01 Appalachian Company shall exercise due diligence to make the service provided hereunder continuous and reliable but it shall not be liable to Kingsport Company in any manner.

Issued by: Dana E. Waldo-President
Appalachian Power Company
Issued on: November 13, 2008

Effective: January 1, 2009

for any interruption or deficiency in such service which may be caused by strikes, accidents, legal process, floods, inadequacy of water supply or other acts of God, governmental interference, breakdowns or injury to its machinery, transmission lines and other equipment, necessity for extraordinary repairs or other causes beyond its reasonable control; provided, however, that in the event of any interruption or deficiency in such service due to any of the aforesaid causes Appalachian Company shall, as promptly as possible, fully restore the service

12.02 The parties to this agreement expressly agree that if there were to be a shortage of capacity and/or electric energy requiring Appalachian Company to curtail availability of capacity and/or energy deliveries to its own retail customers, Kingsport Company agrees that upon being notified by Appalachian Company of such requirement to curtail, Kingsport Company will institute procedures which will cause it to curtail its demand and/or use of energy by its retail customers to the precise and identical degree as the curtailment to be imposed by Appalachian on its retail customers; provided, however, that Kingsport Company agrees that if, upon such notification, it fails to take the action which it hereby agrees to take, Appalachian Company shall be entitled to take such action to limit demand/or energy associated therewith, including right of total interruption of capacity and energy deliveries during the period any shortage exists, and, in such event, Appalachian Company shall not incur any liability to Kingsport Company in connection with the action so taken by Appalachian Company and Kingsport Company agrees to save Appalachian Company harmless from any and all claims, demands or actions of whatever nature which might arise as a result of such action so taken by Appalachian Company

12.03 it is the intention of this provision that any curtailment of demand and/or energy shall fall equally on Appalachian Company's retail customers and those of Kingsport Company

ARTICLE 13

OPERATING COMMITTEE

13.01 In order that the advantages to be derived hereunder may be realized by the parties to the fullest practicable extent, the parties shall appoint a committee of authorized representatives to be known as the Operating Committee

13.02 Each of the parties shall designate in writing delivered to the other party, the person who is to act as its representative on said committee (and the person or persons who may serve as alternate whenever such representative is unable to act) Such representative and alternate or alternates shall each be persons familiar with the generating, transmission, and substation facilities of the system of such party by which it has been so designated, and each shall be fully authorized to cooperate with the other representatives (or alternates) Such representatives (or alternates) shall be fully authorized to cooperate and agree upon all matters, not specifically provided for herein, on which cooperation and agreement are necessary in order that the advantages to be derived hereunder may be realized by the parties to the fullest practicable extent

Issued by: Dana E. Waldo-President
Appalachian Power Company
Issued on: November 13, 2008

Effective: January 1, 2009

ARTICLE 14

ARBITRATION

14 01 In the event of disagreement between the parties with respect to (a) any matter herein specifically made subject to arbitration, (b) any question of operating practice involved in the delivery of transmission of power and energy herein provided for (c) any question of fact involved in the application of the provisions of this agreement, or (d) the interpretation of any provision of this agreement, the matter involved in the disagreement shall, upon demand of either party, be submitted to arbitration in the manner hereinafter provided. An offer of such submission to arbitration shall be a condition precedent to any proceeding at law or in equity concerning such matter, provided that either party may without arbitration bring a proceeding to enjoin breach of this agreement.

14 02 The party calling for arbitration shall serve notice in writing upon the other party, setting forth in detail the subject or subjects to be arbitrated; and the parties thereupon shall endeavor to agree upon and appoint one person to act as sole arbitrator. If the parties fail so to agree within a period of fifteen (15) days from the original notice, the party calling for the arbitration may, by written notice to the other party call for appointment of a board of arbitrators skilled with respect to matters of the character involved in the disagreement, naming one arbitrator in such notice. The other party shall, within ten (10) days thereafter, appoint a second arbitrator, and the two so appointed shall choose and appoint a third. In case such other party fails to appoint an arbitrator within said ten (10) days, or in case the two so appointed fail for ten (10) days to agree upon and appoint a third, the party calling for the arbitration, with five (5) day's notice to the other party, may apply to the person who is the judge in the United States District Court having jurisdiction at Kingsport, Tennessee for appointment of the second or the third arbitrator, as the case may be.

14 03 The sole arbitrator, or the board of arbitrators, shall afford adequate opportunity to the parties hereto to present information with respect to the question or questions submitted for arbitration and may request further information from either or both parties.

14 04 Each party shall pay for the services and personal expenses of the arbitrator appointed by or for it, if there be a board of arbitrators, and all other costs incurred in connection with the arbitration shall be paid in equal parts by the parties hereto, unless the award shall specify a different division of the costs.

ARTICLE 15

DURATION OF AGREEMENT

15 01 This agreement shall become effective January 1, 2009, and shall continue in effect for an initial period expiring December 31, 2011, and thereafter for successive periods of one (1) year until terminated as provided under section 15 02 next below.

Issued by Dana E. Waldo-President
Appalachian Power Company
Issued on November 13, 2008

Effective: January 1, 2009

15.02 This agreement may be terminated by either party as of the expiration of said initial period or as of the expiration of any successive period of one (1) year upon written notice given by the terminating party to the other party at least three (3) years in advance of such termination.

ARTICLE 16

REGULATORY AUTHORITIES

16.01 This agreement is made subject to the jurisdiction of any governmental authority or authorities having lawful jurisdiction in the premises.

ARTICLE 17

ASSIGNMENT

17.01 This agreement shall inure to the benefit of and be binding upon the successors and assigns of the respective parties.

ARTICLE 18

BACK-UP SERVICE

18.01 Appalachian Company shall provide back-up service to Kingsport Company for use by Kingsport Company customers with power production facilities under the terms and conditions specified under Sections 18.02-18.05.

Back-Up Service Reservation

18.02 Kingsport Company may reserve back-up service by giving advance written notice to Appalachian Company. Such notice shall include, for each customer with power production facilities served by Kingsport Company, the amount to the nearest one hundred (100) kilowatts, the service reliability level requirement as specified in Section 18.05 and the effective date for that amount of reserved back-up service. Upon receipt of such notice of reservation, Appalachian Company shall either concur in writing with such reservation or shall inform Kingsport Company of any conditions or limitations related to such reservation. Those conditions and limitations include, but are not limited to, the available capacity of Appalachian Company's generation, transmission and related facilities, the possibility of causing any undue interference with Appalachian Company's obligations to provide service to any of its other customers and the extent to which such back-up service will impose a burden on Appalachian Company's system or any system interconnected with Appalachian Company.

Back-up service shall be reserved for a period of 12 months beginning with the effective date as specified above

Back-Up Service Notification

18.03 Whenever back-up service is needed, Kingsport Company shall verbally notify Appalachian Company immediately and shall specify the KW amount of back-up service required. Such notification shall be confirmed in writing within five (5) working days and shall specify the KW amount, the time and date such use commenced and the termination time and date. If such notification is not received, such back-up service shall be considered as firm load in the determination of Firm Demand as defined in Section 7.015.

Demand Determination

18.04 During any hour, when back-up service is supplied to Kingsport Company for use during the forced outages of its customers' power production facilities, the hourly System Demand as defined in Section 7.012, shall be adjusted by subtracting the amount of back-up service supplied by Appalachian Company.

Monthly Back-Up Charge

18.05 In addition to the monthly charges as specified in Articles 8 and 9, Kingsport Company shall pay Appalachian Company each calendar month for its back-up service reservation as follows:

SERVICE RELIABILITY LEVEL	% FORCED OUTAGE RATE	ALLOWED OUTAGE HOURS	MONTHLY BACK-UP RATE \$/KW 2009	MONTHLY BACK-UP RATE \$/KW 2010	MONTHLY BACK-UP RATE \$/KW 2011
A	5	438	\$0.494/kW	\$0.527/kW	\$0.628/kW
B	10	876	\$0.987/kW	\$1.054/kW	\$1.256/kW
C	15	1,314	\$1.481/kW	\$1.582/kW	\$1.884/kW
D	20	1,752	\$1.974/kW	\$2.109/kW	\$2.512/kW
E	25	2,190	\$2.468/kW	\$2.636/kW	\$3.140/kW
F	30	2,628	\$2.962/kW	\$3.163/kW	\$3.768/kW

The monthly back-up charge is equal to the monthly back-up rate selected times the back-up service reservation.

Whenever the allowed outage hours for the respective service reliability level selected by such customer served by the Kingsport Company are exceeded during that customer's back-up service reservation year, the unadjusted hourly System Demand as defined in Section 7.012 shall be used for billing purposes for the remainder of the back-up service reservation year for that specific customer.

ARTICLE 19

SURPLUS POWER SERVICE

19.01 Appalachian Company, at its sole discretion, may sell Surplus Power at such times and in such quantities as determined by Appalachian Company, to Kingsport Company, to meet temporary increases in the on-peak production requirements of Kingsport Company's customers under the terms and conditions specified under Sections 19.02-19.09.

Surplus Power Reservation

19.02 Kingsport Company shall reserve Surplus Power on a non-firm daily basis.

19.03 The minimum Surplus Power purchase by Kingsport Company shall be one thousand (1,000) kilowatts. All Surplus Power purchases shall be specified to the nearest one thousand (1,000) kilowatts.

19.04 Kingsport Company shall notify Appalachian Company and arrange to reserve Surplus Power, if available, at any time prior to 4 p.m. (EST) of the day immediately preceding the reservation date. Such arrangements shall specify the reservation date and the Surplus Power Reservation to the nearest one thousand (1,000) kilowatts.

19.05 Appalachian Company shall provide to Kingsport Company the applicable daily non-firm demand and energy charges. The charges vary daily to reflect system and market conditions. The prices are based on Service Schedule A, effective October 1, 1995, AEP Companies FERC Electric Tariff Original Volume No. 2 (as amended).

The daily non-firm demand charge shall be up to a maximum of \$700 per MW reserved per day.

The daily non-firm energy charge shall be the out-of-pocket cost of supplying the energy plus up to 10% of such cost not exceeding \$1 per megawatt-hour if such energy is purchased from another party. Out-of-pocket costs shall mean all expenses incurred that would not otherwise have been incurred had surplus power service not been arranged.

Demand Determination

19.06 During any hour of the On-Peak Period, when surplus power service is supplied to Kingsport Company for use by its customers, the hourly System Demand as defined in Section 7.012 shall be adjusted by subtracting the amount of surplus power service supplied by Appalachian Company.

Energy Determination

19.07 For each day, Surplus Energy shall be calculated as the sum of the kilowatts of surplus power service used each clock-hour during the On-Peak Period. Billing Energy, as determined according to Section 7.017, shall be adjusted by subtracting Surplus Energy.

Daily Surplus Charges

19.08 In addition to the monthly charges as specified in Articles 8, 9 and 18, Kingsport Company shall pay Appalachian Company each calendar month for the sum of the Daily Surplus Power charges as follows:

Surplus Demand Charge – The product of the daily Surplus Power Reservation and the daily non-firm demand charge.

Surplus Energy Charge – The product of the daily Surplus Energy and the energy charge.

Conditions of Service

19.09 Appalachian Company reserves the right to interrupt the sale of Surplus Power to Kingsport Company at any time.

Appalachian Company will endeavor to provide Kingsport Company as much advance notice as possible of interruptions of Surplus Power. However, Kingsport Company shall interrupt Surplus Power within ten (10) minutes if so requested.

If Kingsport Company fails to interrupt Surplus Power as requested by Appalachian Company, the uninterrupted surplus demand shall be billed at the Firm Power Demand Charge as defined in Section 8.01 for that billing month.

No responsibility or liability of any kind shall attach to or be incurred by Appalachian Company, or on account of, any loss, cost, expense or damage caused by or resulting from, either directly or indirectly, an interruption of service under Section 19.09.

In the event Appalachian Company interrupts the sale of Surplus Power to Kingsport Company, the Daily Demand Charge shall be reduced by an amount equal to 1/15th of the daily non-firm demand charge for each hour or portion of an hour that the sale of Surplus Power to Kingsport Company is interrupted.

IN WITNESS WHEREOF, the parties have caused their duly authorized representatives to execute this agreement on their behalf as of the first date above written

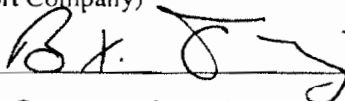
APPALACHIAN POWER COMPANY
(Appalachian Company)

By: 

Name: Carl L. English

Title: Vice President

KINGSPORT POWER COMPANY
(Kingsport Company)

By: 

Name: Brian X. Tierney

Title: Vice President

Amended and Restated
Interconnection Agreement Between
Appalachian Power Company and
Kingsport Power Company
(Blacklined version)

AMENDED AND RESTATED
INTERCONNECTION AGREEMENT
BETWEEN
APPALACHIAN ELECTRIC POWER COMPANY
AND
~~KINGSPORT UTILITIES, INCORPORATED~~ POWER COMPANY

DATED NOVEMBER 19 , ~~1954~~ 2008

~~EFFECTIVE JANUARY 1, 1955~~

Issued by: Dana E. Waldo-President
Appalachian Power Company

Issued on: November 13, 2008

Effective: January 1, 2009

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0.01 THIS AGREEMENT, made and entered into this 19th day of November, 1954, by and between APPALACHIAN ELECTRIC POWER COMPANY (herein sometimes called Appalachian Company), a Virginia corporation, and KINGSPORT UTILITIES INCORPORATED POWER COMPANY (herein sometimes called Kingsport Company), a Tennessee corporation,

WITNESSETH,

THAT:

0.02 WHEREAS, Appalachian Company and Kingsport Company are electric operating company subsidiaries of American Electric Power Company, Inc. (AEP) and part of the east zone of the AEP System (AEP-East System); and

0.03 WHEREAS, Appalachian Company owns and operates electric facilities in Tennessee, Virginia and West Virginia, and Kingsport Company owns and operates electric facilities in Tennessee; and

0.04 WHEREAS, Kingsport Company ~~does not own any electric generating facilities include a steam electric generating station located in or near Kingsport, Tennessee known as the Kingsport Station which is to be retired December 31, 1954; and~~

0.05 WHEREAS, the parties' systems are now and have been for many years interconnected through their respective transmission lines at a number of points (hereby designated and herein called Interconnection Points) in or near Kingsport, Tennessee and at the Virginia-Tennessee boundary; and

0.06 WHEREAS, the transmission facilities of the AEP-East System are operated under the functional control of PJM Interconnection LLC (PJM); and

0.07 WHEREAS, ~~to supplement Kingsport Company's electric generation~~ Appalachian Company is now supplying the full electric power and energy requirements of Kingsport Company pursuant to an agreement between the parties dated January 10, 1954 ~~November 19, 1954, as amended (the 1954 Agreement); and~~

0.08 WHEREAS, the parties recognize that the provisions of said agreement of January 10, 1954, and the principles upon which they are based are not in accord with services and conditions of service suited to prevailing conditions of load and generation in the parties' systems; and

Issued by: Dana E. Waldo-President
Appalachian Power Company

Issued on: November 13, 2008

Effective: January 1, 2009

~~0.07~~ WHEREAS, the parties deem it advisable for the mutual benefit of the parties and the public which they serve to terminate said agreement and enter into new contractual arrangements; and

0.08 WHEREAS, the parties desire to ~~fix~~ amend the 1954 Agreement to modify the terms and conditions upon pursuant to which the sale and purchase of electric power and energy will be conducted between them ~~may be conducted on a basis which is in accord with prevailing conditions and which will permit a full realization of the benefits and advantages of the coordinated interconnected operation of the parties' systems; and~~

0.09 WHEREAS, Appalachian Company and Kingsport Company acknowledge that any amendment to the 1954 Agreement requires the parties to restate the 1954 Agreement, as amended, to comply with Order No. 614 of the Federal Energy Regulatory Commission (Commission).

~~0.09~~ 10 NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein set forth, the parties agree as follows:

Issued by: Dana E. Waldo-President
Appalachian Power Company

Issued on: November 13, 2008

Effective: January 1, 2009

ARTICLE 1

PROVISIONS FOR, AND CONTINUITY OF INTERCONNECTED OPERATION

1.01 Throughout the duration of this agreement the systems of the parties shall be operated in continuous synchronism through each of the various lines interconnecting their respective systems; provided, however, if synchronous operation of the systems through a particular line or lines becomes interrupted because of reasons beyond the control of either party or because of scheduled maintenance that has been agreed to by both parties, the parties shall cooperate so as to remove the cause of such interruption as soon as practicable and restore the affected line or lines to normal operating conditions.

1.02 Each party shall keep, or shall cause to be kept, the portions of the lines interconnecting their respective systems, together with all associated facilities and appurtenances, that are located on their respective sides of the Interconnection Points in a suitable condition of repair at all times in order that said lines will operate in a reliable and satisfactory manner and that reduction in the capacity of said lines will be avoided.

ARTICLE 2

SERVICES TO BE RENDERED

2.01 Appalachian Company shall sell and deliver and Kingsport Company shall take and pay for electric power (herein called Firm Power) and associated electric energy (herein called Firm Energy) as hereinbelow described. Commencing January 1, ~~1955~~ 2009, and thereafter throughout the duration of this Agreement, Appalachian Company shall be required to stand ready at all times, subject to the provisions of this agreement, to deliver to Kingsport Company Firm Power and Firm Energy in amounts as required by Kingsport Company.

ARTICLE 3

SERVICE CONDITIONS

3.01 The parties shall maintain and operate their respective systems so as to minimize, in accordance with sound operating practice, the likelihood of disturbance originating in either system which might cause impairment to the service of the system of the other party or any system interconnected with the system of the other party.

Issued by: Dana E. Waldo-President
Appalachian Power Company

Issued on: November 13, 2008

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ARTICLE 4

ENERGY TRANSFER

4.01 In carrying out the operation of their respective systems interconnected as provided for under this agreement, energy being received by a portion of one party's system from another portion of its system or from the system of another interconnected company, or energy being delivered by a portion of one party's system to another portion of its system or to the system of another interconnected company, may flow over the transmission facilities of the other party as a natural result of the physical and electrical characteristics of the interconnected network of transmission lines of which the transmission systems of the parties are a part. In respect to such flow of energy (herein called energy transfer) the parties agree that such energy transfer over their respective transmission facilities shall be permitted when such transfer occurs, and, except as may be specifically agreed to otherwise by the parties, neither party shall make a charge at any time to the other party to permit such energy transfer or for electrical transmission losses that may result therefrom.

ARTICLE 5

DELIVERY POINTS, METERING POINTS, AND METERING

Delivery Points

5.01 All energy delivered shall be of the character commonly known as three-phase sixty-cycle energy, and shall be delivered at the various points where the systems of the parties are interconnected at the nominal unregulated voltage designated for such Interconnection Points.

Metering Points

5.02 Power and energy supplied and delivered by either party to the other party shall be measured by suitable metering equipment to be provided, owned, and maintained by the parties at such metering points as agreed upon between them.

Metering

5.03 Measurements of power and energy for the purpose of effecting settlements under this agreement shall be made by standard types of electrical meters. The meters shall be sealed and the seals shall be broken only upon occasions when the meters are to be tested or adjusted. For the purpose of checking the records of the metering equipment installed by either party, the other party shall have the right to install check metering equipment at metering points.

Metering equipment so installed by one party on the premises of another party shall be owned and maintained by the party installing such equipment. Upon termination of this agreement the party owning such metering equipment shall remove it from the premises of the other party. Authorized representatives of both parties shall have access at all reasonable hours to the premises where the meters are located and to the records made by the meters.

5.04 The aforesaid metering equipment shall be tested by the owner at suitable intervals and its accuracy of registration maintained in accordance with good utility practice. On request of either party special tests shall be made at the expense of the party requesting such special test. Representatives of both parties shall be afforded opportunity to be present at all routine or special tests and upon occasions when any readings, for purposes of settlements hereunder, are taken from meters not bearing an automatic record.

5.05 If at any test of metering equipment an inaccuracy shall be disclosed exceeding two per cent (2%), the account between the parties for service theretofore delivered shall be adjusted to correct for the inaccuracy disclosed over a period of thirty (30) days prior to the date of the test, but not for a longer period than such inaccuracy may be determined to have existed. Should the metering equipment as provided for under section 5.02 above fail to register at any time, the power and energy delivered shall be determined from the check meters, if installed, or otherwise shall be determined from the best available data.

ARTICLE 6

RECORDS AND STATEMENTS

Records

6.01 In addition to meter records to be kept by the parties, as provided for under Article 5, the parties shall keep in duplicate such log sheets and other records as may be needed to afford a clear history of the various deliveries of energy made by one party to the other and of the kilowatt clock-hour integrated demands delivered by one party to the other. In maintaining such records the parties shall effect such segregations and allocations of demands and energy delivered into classes representing the various services and conditions as may be needed in connection with settlements under this agreement and/or any other agreements between the parties. The originals of log sheets and other records shall be retained by the party keeping the records and the duplicates shall be delivered weekly to the other party except as the parties may agree upon a different time interval for such delivery.

6.02 As promptly as practicable after the end of each calendar month Appalachian Company shall render to Kingsport Company a statement setting forth the power and energy

transactions between the parties during such month in such detail and with such segregations as may be needed for operating records or for settlement under the provisions of this agreement and/or any other agreement between the parties.

6.03 The Operating Committee, as provided for under Article 13, shall establish, and from time to time amend, and modify, if necessary, the power and energy accounting procedure requisite to the maintaining of clock-hour records needed to afford a clear history of the various deliveries made by one party to the other, in order that the power and energy delivered and/or received for each clock-hour by each party to and/or by the other party may be properly segregated and allocated for their respective accounts. The parties agree that the segregations and allocations of power and energy so determined and the interpretations of the Operating Committee in classifying such power and energy into categories for the particular services or conditions under which supply is made as provided for by this agreement shall be used for the purpose of effecting settlements hereunder.

ARTICLE 7

DEFINITION OF BILLING FACTORS

- 7.01 The parties agree to the definitions of the terms as hereinbelow set forth, viz.:
- 7.011 Contract Year – Each calendar year shall be taken as a Contract Year.
- 7.012 System Demand – The total integrated kilowatt (KW) clock-hour load of Kingsport Company's system, i.e., the sum of the net number of kilowatt-hours of input to Kingsport Company's system by Appalachian Company at the Interconnection Points occurring in the On-Peak Period, as designated in Section 7.018, adjusted when necessary for use of back-up, ~~maintenance~~ and/or surplus power service as designated in Sections 18.04, ~~19.04~~ and ~~20.06~~ 19.06.
- 7.013 System Maximum Demand – For a calendar month, the single highest System Demand for such month.
- 7.014 System Requirement – For a calendar month, the System Maximum Demand for such month.
- 7.015 Firm Demand – For a calendar month, the System Requirement for such month taken to the nearest even one thousand (1,000) kilowatts, in no event, however, shall said Firm Demand be less than thirty thousand (30,000) kilowatts.

- 7.016 Average Demand – For a Contract Year, the numerical average, taken to the nearest even one thousand (1,000) kilowatts, of the monthly Firm Demands for such Contract Year, in no event, however, shall said Average Demand be less than eighty-five per cent (85%) of the highest Average Demand of any preceding Contract Year.
- 7.017 Billing Energy – For a calendar month, the sum of the ~~net~~ number of kilowatt-hours of input to Kingsport Company's system by Appalachian Company at the Interconnection Points less that energy determined to be ~~Maintenance Energy under Section 19.05 and/or Surplus Energy under Section 20.19.07.~~
- 7.018 On-Peak Period – The hours from 6 a.m. to 9 p.m., local time (EDT), for all weekdays, Monday through Friday.
- 7.019 Off-Peak Period – The hours from 9 p.m. to 6 a.m., local time (EDT), for all weekdays, all hours of the day on Saturdays and Sundays and the legal holidays of New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.
- 7.020 System Off-Peak Demand – The total integrated kilowatt (KW) clock-hour load of Kingsport Company's system, i.e., the sum of the ~~net~~ number of kilowatt-hours of input to Kingsport Company's system by Appalachian Company at the Interconnection Points occurring in the Off-Peak Period, as designated in Section 7.019, adjusted when necessary for use of back-up ~~and/or maintenance service as designated in Section 18.04 and 19.04.~~
- 7.021 System Off-Peak Excess Demand – For a calendar month, the amount by which the System Off-Peak Demand exceeds the System Demand taken to the nearest even one thousand (1,000) kilowatts.

ARTICLE 8 COMPENSATION

Monthly Charge

8.01 For firm power and energy associated therewith:

Demand Charge	
For each kilowatt of Firm Demand	\$6.752 per kW
Off-Peak Excess Demand Charge	
For each kilowatt of	
System Off-Peak Excess Demand	\$0.675 per kW
Energy Charge	
For each kilowatt-hour of	
Billing Energy taken	\$0.01914 per kWh

	2009	2010	2011
<u>Generation Demand Charge</u>			
<u>For each kilowatt of Firm Demand</u>	<u>\$9.872/kW</u>	<u>\$10.544/kW</u>	<u>\$12.561/kW</u>
<u>Off-Peak Excess</u>			
<u>Generation Demand Charge</u>			
<u>For each kilowatt of</u>			
<u>System Off-Peak Excess Demand</u>	<u>\$0.987/kW</u>	<u>\$1.054/kW</u>	<u>\$1.256/kW</u>
<u>Generation Energy Charge</u>			
<u>(includes Fuel Base)</u>			
<u>For each kilowatt-hour of</u>			
<u>Billing Energy taken</u>	<u>\$0.0196774/kWh</u>	<u>\$0.0197445/kWh</u>	<u>\$0.0199460/kWh</u>

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Neither Appalachian Company nor Kingsport Company shall have a unilateral right, under Section 205 or 206 of the Federal Power Act (Section 205 or 206), respectively, to request that FERC change the generation rates set forth above or in Section 18.05, where such change would become effective prior to January 1, 2012. The parties further agree that (i) FERC may not require any change to this agreement that would become effective prior to January 1, 2012, unless FERC determines that such change is required under the public interest standard set forth in *Morgan Stanley Capital Group Inc. v. Public Utility District No. 1 of Snohomish County*, and (ii) if a non-contracting third party requests that FERC require a change be made to this agreement that would be effective prior to January 1, 2012, FERC shall review such request under the most stringent standard permissible under then-current applicable law.

The generation rates in effect for 2011, as set forth above and in Section 18.05, shall continue in effect beyond December 31, 2012, absent FERC action; provided, however, that either Appalachian Company or Kingsport Company shall have the right to file an application or complaint with the FERC, for a change in such wholesale generation rates, under Section 205 or 206, respectively, to be effective on and after January 1, 2012.

Kingsport Company shall pay for Network Integration Transmission Service (NITS) and other applicable transmission-related services (other than generation-based Ancillary Services), as arranged by the AEP East System, in accordance with the provisions of the PJM Open Access Transmission Service Tariff (OATT), or other applicable FERC rate schedules, as such rate schedules, which may be revised from time to time, apply to the AEP East system companies.

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Appalachian Power Company

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Minimum Annual Demand Charge

8.02 For the supply of Firm Power, the aggregate of the monthly demand charges for Firm Demand billed to Kingsport Company by Appalachian Company pursuant to Section 8.01 above during any Contract Year shall not be less than the Minimum Annual Demand Charge which is the product of the Average Demand for the year times the Generation dDemand e Charge set forth in Section 8.01 above times the figure representing the number of months of such Contract Year. As promptly as practicable after the expiration of each Contract Year, the aggregate of the monthly Generation dDemand e Charges for Firm Demand billed to Kingsport Company during such year pursuant to Section 8.01 above shall be determined. If the total so found to have been billed is less than the Minimum Annual Demand Charge, Kingsport Company shall pay Appalachian Company an amount equal to the difference between the Minimum Annual Demand Charge for such Contract Year and said total.

ARTICLE 9

RATE ADJUSTMENTS

Fuel Adjustment Clause

9.01 When the unit cost of fuel (Fm/Sm) used to meet Appalachian Company's Net Energy Requirement less losses (Sm) is above or below the base unit cost of 14.7126 mills per kilowatthour (Fb/Sb) an additional charge or credit equal to the product of the Billing Energy taken under Section 8.01 ~~plus the Maintenance Energy taken under Section 10.06~~ and a Fuel Adjustment Clause Factor "A" shall be made, where "A", calculated to the nearest 0.0001 mill per kilowatthour, is as defined below:

$$\text{Adjustment Factor (A)} = \frac{Fm}{Sm} - \frac{Fb}{Sb}$$

In the above formula "F" is the expense of fossil and nuclear fuel in the base (b) and current (m) periods; and "S" is the KWH sales in the base and current periods, all as defined below:

Fuel Cost (F) shall be the cost of:

- (a) fossil and nuclear fuel consumed in Appalachian Company's plants and Appalachian Company's share of fossil and nuclear fuel consumed in jointly owned or leased plants;
- (b) the actual identifiable fossil and nuclear fuel costs associated with energy purchased for reasons other than identified in (c) below;

- (c) the net energy cost of energy purchases, exclusive of capacity or demand charges (irrespective of the designation assigned to such transaction) when such energy is purchased on an economic dispatch basis (included therein shall be such costs as the charges for economy energy purchases and the charges as a result of scheduled outage, all such kinds of energy being purchased by Appalachian Company to substitute for its own higher cost energy); and less
- (d) the cost of fossil and nuclear fuel recovered through inter-system sales including the fuel costs related to economy energy sales and other energy sold on an economic dispatch basis.

Sales (S) shall be equated to the sum of (a) generation, (b) purchases, (c) interchange-in, less (d) energy associated with pumped storage operations, less (e) inter-system sales referred to in (d) above, less (f) total system losses.

Sales (S) shall be modified to reflect losses of 2.7972% associated with Appalachian Company's deliveries to Kingsport Company.

9.02 The adjustment factor developed according to the preceding paragraphs may be further modified to allow the recovery of gross receipts or other similar revenue-based tax charges occasioned by the fuel adjustment revenues.

9.03 The cost of fossil fuel shall include no items other than those listed in Account 151 of the Commission's Uniform System of Accounts for Public Utilities and Licensees. The cost of nuclear fuel shall be that as shown in Account 518, except that if Account 518 also contains any expense for fossil fuel which has already been included in the cost of fossil fuel, it shall be deducted from this account.

ARTICLE 10

TAXES

10.01 If, at any time during the term hereof, there should be levied and/or assessed against Appalachian Company any tax by any taxing authority in respect to the power and/or energy generated, purchased, sold, imported, exported, transmitted, interchanged, or exchanged by Appalachian Company in addition to or different from the forms of such taxes now being levied or assessed against Appalachian Company, or any increase or decrease in the rate of such existing or future taxes, and such taxes or changes in such taxes should result in increasing or decreasing the cost to Appalachian Company in carrying out the provisions of this agreement, then in such event adjustments shall be made in the rates and charges for power and energy furnished hereunder to make allowance for such taxes and changes in such taxes in an equitable manner. The taxes referred to above in this Article shall not include property, franchise or net income taxes.

ARTICLE 11

BILLINGS AND PAYMENTS

11.01 Bills shall be rendered monthly. Bills rendered under this Agreement are due and payable when rendered. If all or any part of a bill shall remain unpaid for more than twenty (20) days after the date of bill, there shall be due and payable to the Appalachian Company, in addition to the unpaid balance, simple interest computed as follows: the prime interest rate in effect at the Manufacturers Hanover Trust Company, New York, New York, or its successor, on the last day of the month for which the delinquent bill was rendered. In the event of stoppage or failure of any meter to register the full amount of energy demanded, Customer-Kingsport Company will be billed for such period on an estimated consumption based upon its use of energy and/or demand for power in a similar period of like use, or based upon other data available to Appalachian Company.

If Customer-Kingsport Company disputes the accuracy of a bill, timely payment shall be made of the bill as rendered and the parties shall use their best efforts to resolve the dispute and shall make such adjustment, if any, by credit or additional charge on the next bill rendered. If the parties are unable to resolve such dispute, the parties may take such action as they deem necessary to protect their interests. The existence of a dispute as to any bill shall not relieve either party of compliance with the terms of this Agreement.

ARTICLE 12

CONTINUITY OF SERVICE

12.01 Appalachian Company shall exercise due diligence to make the service provided hereunder continuous and reliable but it shall not be liable to Kingsport Company in any manner

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for any interruption or deficiency in such service which may be caused by strikes, accidents, legal process, floods, inadequacy of water supply or other acts of God, governmental interference, breakdowns or injury to its machinery, transmission lines and other equipment, necessity for extraordinary repairs or other causes beyond its reasonable control; provided, however, that in the event of any interruption or deficiency in such service due to any of the aforesaid causes Appalachian Company shall, as promptly as possible, fully restore the service.

12.02 The parties to this Agreement expressly agree that if there were to be a shortage of capacity and/or electric energy requiring Appalachian Company to curtail availability of capacity and/or energy deliveries to its own retail customers, Kingsport Company agrees that upon being notified by Appalachian Company of such requirement to curtail, Kingsport Company will institute procedures which will cause it to curtail its demand and/or use of energy by its retail customers to the precise and identical degree as the curtailment to be imposed by Appalachian on its retail customers; provided, however, that Kingsport Company agrees that if, upon such notification, it fails to take the action which it hereby agrees to take, Appalachian Company shall be entitled to take such action to limit demand and/or energy associated therewith, including right of total interruption of capacity and energy deliveries during the period any shortage exists, and, in such event, Appalachian Company shall not incur any liability to Kingsport Company in connection with the action so taken by Appalachian Company and Kingsport Company agrees to save Appalachian Company harmless from any and all claims, demands or actions of whatever nature which might arise as a result of such action so taken by Appalachian Company.

12.03 it is the intention of this provision that any curtailment of demand and/or energy shall fall equally on Appalachian Company's retail customers and those of Kingsport Company.

ARTICLE 13

OPERATING COMMITTEE

13.01 In order that the advantages to be derived hereunder may be realized by the parties to the fullest practicable extent, the parties shall appoint a committee of authorized representatives to be known as the Operating Committee.

13.02 Each of the parties shall designate in writing delivered to the other party, the person who is to act as its representative on said committee (and the person or persons who may serve as alternate whenever such representative is unable to act). Such representative and alternate or alternates shall each be persons familiar with the generating, transmission, and substation facilities of the system of such party by which it has been so designated, and each shall be fully authorized to cooperate with the other representatives (or alternates). Such representatives (or alternates) shall be fully authorized to cooperate and agree upon all matters, not specifically provided for herein, on which cooperation and agreement are necessary in order that the advantages to be derived hereunder may be realized by the parties to the fullest practicable extent.

ARTICLE 14

ARBITRATION

14.01 In the event of disagreement between the parties with respect to (a) any matter herein specifically made subject to arbitration, (b) any question of operating practice involved in the delivery of transmission of power and energy herein provided for (c) any question of fact involved in the application of the provisions of this agreement, or (d) the interpretation of any provision of this agreement, the matter involved in the disagreement shall, upon demand of either party, be submitted to arbitration in the manner hereinafter provided. An offer of such submission to arbitration shall be a condition precedent to any proceeding at law or in equity concerning such matter, provided that either party may without arbitration bring a proceeding to enjoin breach of this agreement.

14.02 The party calling for arbitration shall serve notice in writing upon the other party, setting forth in detail the subject or subjects to be arbitrated; and the parties thereupon shall endeavor to agree upon and appoint one person to act as sole arbitrator. If the parties fail so to agree within a period of fifteen (15) days from the original notice, the party calling for the arbitration may, by written notice to the other party call for appointment of a board of arbitrators skilled with respect to matters of the character involved in the disagreement, naming one arbitrator in such notice. The other party shall, within ten (10) days thereafter, appoint a second arbitrator, and the two so appointed shall choose and appoint a third. In case such other party fails to appoint an arbitrator within said ten (10) days, or in case the two so appointed fail for ten (10) days to agree upon and appoint a third, the party calling for the arbitration, with five (5) day's notice to the other party, may apply to the person who is the judge in the United States District Court having jurisdiction at Kingsport, Tennessee for appointment of the second or the third arbitrator, as the case may be.

14.03 The sole arbitrator, or the board of arbitrators, shall afford adequate opportunity to the parties hereto to present information with respect to the question or questions submitted for arbitration and may request further information from either or both parties.

14.04 Each party shall pay for the services and personal expenses of the arbitrator appointed by or for it, if there be a board of arbitrators, and all other costs incurred in connection with the arbitration shall be paid in equal parts by the parties hereto, unless the award shall specify a different division of the costs.

ARTICLE 15

DURATION OF AGREEMENT

15.01 This agreement shall become effective January 1, ~~1955~~2009, and shall continue in effect for an initial period expiring December 31, ~~1954~~2011, and thereafter for successive periods of one (1) year until terminated as provided under section 15.02 next below.

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15.02 This agreement may be terminated by either party as of the expiration of said initial period or as of the expiration of any successive period of one (1) year upon written notice given by the terminating party to the other party at least three (3) years in advance of such termination.

~~15.03 The agreement between the parties dated January 10, 1938, and any supplemental agreement thereto shall terminate December 31, 1954.~~

ARTICLE 16

REGULATORY AUTHORITIES

16.01 This agreement is made subject to the jurisdiction of any governmental authority or authorities having lawful jurisdiction in the premises.

ARTICLE 17

ASSIGNMENT

17.01 This agreement shall inure to the benefit of and be binding upon the successors and assigns of the respective parties.

~~17.02 In witness whereof, the parties hereto have caused this agreement to be executed by their duly authorized officers.~~

ARTICLE 18

BACK-UP SERVICE

18.01 Appalachian Company shall provide back-up service to Kingsport Company for use by Kingsport Company customers with power production facilities under the terms and conditions specified under Sections 18.02-18.05.

Back-Up Service Reservation

18.02 Kingsport Company may reserve back-up service by giving advance written notice to Appalachian Company. Such notice shall include, for each customer with power production facilities served by Kingsport Company, the amount to the nearest one hundred (100) kilowatts, the service reliability level requirement as specified in Section 18.05 and the effective date for that amount of reserved back-up service. Upon receipt of such notice of reservation, Appalachian Company shall either concur in writing with such reservation or shall inform Kingsport Company of any conditions or limitations related to such reservation. Those conditions and limitations include, but are not limited to, the available capacity of Appalachian Company's generation, transmission and related facilities, the possibility of causing any undue interference with Appalachian Company's obligations to provide service to any of its other customers and the extent to which such back-up service will impose a burden on Appalachian Company's system or any system interconnected with Appalachian Company.

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Back-up service shall be reserved for a period of 12 months beginning with the effective date as specified above.

Back-Up Service Notification

18.03 Whenever back-up service is needed, Kingsport Company shall verbally notify Appalachian Company immediately and shall specify the KW amount of back-up service required. Such notification shall be confirmed in writing within five (5) working days and shall specify the KW amount, the time and date such use commenced and the termination time and date. If such notification is not received, such back-up service shall be considered as firm load in the determination of Firm Demand as defined in Section 7.015.

Demand Determination

18.04 During any hour, when back-up service is supplied to Kingsport Company for use during the forced outages of its customers' power production facilities, the hourly System Demand as defined in Section 7.012, shall be adjusted by subtracting the amount of back-up service supplied by Appalachian Company.

~~If both back-up and maintenance (Article 19) service are utilized in a single month, the hourly System Demand shall be adjusted for both in the appropriate hours.~~

Monthly Back-Up Charge

18.05 In addition to the monthly charges as specified in Articles 8 and 9, Kingsport Company shall pay Appalachian Company each calendar month for its back-up service reservation as follows:

SERVICE RELIABILITY LEVEL	% FORCED OUTAGE RATE	ALLOWED OUTAGE HOURS	MONTHLY BACK-UP RATE \$/KW
A	5	438	0.347
B	10	876	0.694
C	15	1,314	1.042
D	20	1,752	1.389
E	25	2,190	1.736
F	30	2,628	2.083

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<u>SERVICE RELIABILITY LEVEL</u>	<u>% FORCED OUTAGE RATE</u>	<u>ALLOWED OUTAGE HOURS</u>	<u>MONTHLY BACK-UP RATE \$/KW 2009</u>	<u>MONTHLY BACK-UP RATE \$/KW 2010</u>	<u>MONTHLY BACK-UP RATE \$/KW 2011</u>
A	5	438	\$0.494/kW	\$0.527/kW	\$0.628/kW
B	10	876	\$0.987/kW	\$1.054/kW	\$1.256/kW
C	15	1,314	\$1.481/kW	\$1.582/kW	\$1.884/kW
D	20	1,752	\$1.974/kW	\$2.109/kW	\$2.512/kW
E	25	2,190	\$2.468/kW	\$2.636/kW	\$3.140/kW
F	30	2,628	\$2.962/kW	\$3.163/kW	\$3.768/kW

The monthly back-up charge is equal to the monthly back-up rate selected times the back-up service reservation.

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Whenever the allowed outage hours for the respective service reliability level selected by such customer served by the Kingsport Company are exceeded during that customer's back-up service reservation year, the unadjusted hourly System Demand as defined in Section 7.012 shall be used for billing purposes for the remainder of the back-up service reservation year for that specific customer.

ARTICLE 19

MAINTENANCE SERVICE

~~19.01 Appalachian Company shall provide maintenance service to Kingsport Company for use by Kingsport Company customers with power production facilities under the terms and conditions specified under Sections 19.02-19.06.~~

Maintenance Service Reservation

~~19.02 Kingsport Company may reserve maintenance service by giving advance written notice to Appalachian Company. Such notice shall specify the amount to the nearest one hundred (100) kilowatts, not to exceed the maximum maintenance service requirements of Kingsport Company's customers' power production facilities during planned maintenance outages, and the effective date for that amount of reserved maintenance service. Upon receipt of such notice of reservation, Appalachian Company shall either accept in writing such reservation or shall inform Kingsport Company of any conditions or limitations related to such reservation. These conditions and limitations include, but are not limited to, the available capacity of Appalachian Company's generation, transmission and related facilities; the possibility of causing any undue interference with Appalachian Company's obligations to provide service to any of its other customers; and the extent to which such maintenance service will impose a burden on Appalachian Company's system or any system interconnected with Appalachian Company.~~

Maintenance Service Notification

~~19.03~~

~~19.04 A major maintenance outage shall be considered a not maintenance service request greater than 5,100 kW in total capacity over a 7 day period and may be scheduled at a time which is acceptable to Appalachian Company. Written notice shall be provided to Kingsport Company at least six (6) months in advance. Such scheduled outages at a lesser period by mutual agreement and shall specify the kW amount of maintenance service required as well as the dates and times such use will commence and terminate.~~

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19.032 A minor maintenance outage shall be considered as any maintenance service request of 5,000 KW or less and for a period of seven (7) days or less and may be scheduled at a time which is acceptable to Appalachian Company. Written notice shall be provided by Kingsport Company at least thirty (30) days in advance of such outage or a lesser period by mutual agreement and shall specify the KW amount of maintenance service required as well as the dates and times such use will commence and terminate.

19.033 If such notification is not received, such maintenance service load shall be considered as firm load in the determination of Firm Demand as defined in Section 7.015.

Demand Determination

19.04 Whenever a specific request for maintenance service is made by Kingsport Company pursuant to Sections 19.031 or 19.032, the hourly System Demand as defined in Section 7.012 shall be adjusted by subtracting the maintenance service requested in the hours specified by Kingsport Company.

If both maintenance and back-up (Article 18) service are utilized in a single month, the hourly System Demand will be adjusted for both in the appropriate hours.

Energy Determination

19.05 Whenever maintenance service is used, Maintenance Energy shall be calculated as the kilowatts of maintenance service requested multiplied by the number of hours of maintenance use. Billing Energy as determined according to Section 7.017, shall be adjusted by subtracting Maintenance Energy.

Monthly Maintenance Charge

19.06 In addition to the monthly charges as specified in Section 8.01, Kingsport Company shall pay Appalachian Company each calendar month for Maintenance Energy as follows:

Maintenance Energy Charge

For each KW of Maintenance

Energy taken \$0.02082 per KW-H

The rate in the above schedule shall be subject to adjustment in accordance with the provisions of Article 9.

ARTICLE 20

Issued by: Dana E. Waldo-President
Appalachian Power Company

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SURPLUS POWER SERVICE

~~20~~19.01 Appalachian Company, at its sole discretion, may sell Surplus Power at such times and in such quantities as determined by Appalachian Company, to Kingsport Company, to meet temporary increases in the on-peak production requirements of Kingsport Company's customers under the terms and conditions specified under Sections ~~24~~19.02-~~20~~19.09.

Surplus Power Reservation

~~24~~19.02 Kingsport Company shall reserve Surplus Power on a non-firm daily basis.

~~24~~19.03 The minimum Surplus Power purchase by Kingsport Company shall be one thousand (1,000) kilowatts. All Surplus Power purchases shall be specified to the nearest one thousand (1,000) kilowatts.

~~24~~19.04 Kingsport Company shall notify Appalachian Company and arrange to reserve Surplus Power, if available, at any time prior to 4 p.m. (EST) of the day immediately preceding the reservation date. Such arrangements shall specify the reservation date and the Surplus Power Reservation to the nearest one thousand (1,000) kilowatts.

~~20~~19.05 Appalachian Company shall provide to Kingsport Company the applicable daily non-firm demand and energy charges. The charges vary daily to reflect system and market conditions. The prices are based on Service Schedule A, effective October 1, 1995, AEP Companies FERC Electric Tariff Original Volume No. 2 (as amended).

The daily non-firm demand charge shall be up to a maximum of \$700 per MW reserved per day.

The daily non-firm energy charge shall be the out-of-pocket cost of supplying the energy plus up to 10% of such cost not exceeding \$1 per megawatt-hour if such energy is purchased from another party. Out-of-pocket costs shall mean all expenses incurred that would not otherwise have been incurred had surplus power service not been arranged.

Demand Determination

~~2019.06~~ During any hour of the On-Peak Period, when surplus power service is supplied to Kingsport Company for use by its customers, the hourly System Demand as defined in Section 7.012 shall be adjusted by subtracting the amount of surplus power service supplied by Appalachian Company.

Energy Determination

~~2019.07~~ For each day, Surplus Energy shall be calculated as the sum of the kilowatts of surplus power service used each clock-hour during the On-Peak Period. Billing Energy, as determined according to Section 7.017, shall be adjusted by subtracting Surplus Energy.

Daily Surplus Charges

~~2019.08~~ In addition to the monthly charges as specified in Articles 8, 9, and 18 and 19, Kingsport Company shall pay Appalachian Company each calendar month for the sum of the Daily Surplus Power charges as follows:

Surplus Demand Charge – The product of the daily Surplus Power Reservation and the daily non-firm demand charge.

Surplus Energy Charge – The product of the daily Surplus Energy and the energy charge.

Conditions of Service

~~2019.09~~ Appalachian Company reserves the right to interrupt the sale of Surplus Power to Kingsport Company at any time.

Appalachian Company will endeavor to provide Kingsport Company as much advance notice as possible of interruptions of Surplus Power. However, Kingsport Company shall interrupt Surplus Power within ten (10) minutes if so requested.

If Kingsport Company fails to interrupt Surplus Power as requested by Appalachian Company, the uninterrupted surplus demand shall be billed at the Firm Power Demand Charge as defined in Section 8.01 for that billing month.

No responsibility or liability of any kind shall attach to or be incurred by Appalachian Company, or on account of, any loss, cost, expense or damage caused by or resulting from, either directly or indirectly, an interruption of service under Section ~~2019.09~~.

In the event Appalachian Company interrupts the sale of Surplus Power to Kingsport Company, the Daily Demand Charge shall be reduced by an amount equal to 1/15th of the daily non-firm demand charge for each hour or portion of an hour that the sale of Surplus Power to Kingsport Company is interrupted.

Issued by: Dana E. Waldo-President
Appalachian Power Company

Issued on: November 13, 2008

Effective: January 1, 2009

IN WITNESS WHEREOF, the parties have caused their duly authorized representatives
to execute this agreement on their behalf as of the first date above written.

APPALACHIAN ~~ELECTRIC~~ POWER COMPANY
(Appalachian Company)

By: _____

Name: _____

Title: _____

ATTEST:

Assistant Secretary

KINGSPORT ~~UTILITIES, INCORPORATED~~
POWER COMPANY
(Kingsport Company)

By: _____

Name: _____

Title: _____

ATTEST:

Assistant Secretary

Issued by: Dana E. Waldo-President
Appalachian Power Company

Issued on: November 13, 2008

Effective: January 1, 2009

Exhibit I

Cost Support

A-1
APPALACHIAN POWER COMPANY
DETERMINATION OF DEMAND-RELATED COSTS AND
DEMAND CHARGE
COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES
CONSUMPTION DATA BASED ON 12 MONTHS ENDED 12/31/07

		<u>Demand Related</u>	<u>Reference</u>
1	Return on Investment	\$215,432,494	P A-5, L.18, Col (2)
2.	Operation & Maintenance Expense	\$419,311,002	P.A-14, L.8, Col (2)
3.	Depreciation Expense	\$78,519,845	P A-15, L.11, Col (2)
4	Taxes Other Than Income Taxes	\$58,399,974	P A-16, L.12, Col (3)
5	Income Tax	\$66,828,093	P.A-17, L.5, Col (2)
6.	Subtotal	\$838,491,407	Lines 1 through 5
7.	Less: Off-System Sales for Resale Expenses	\$0	P. A-4, L.3, Col (2)
8.	Less: Customer Share of Off-System Sales Margin	\$8,920,957	P. A-4, L.4, Col (2)
9.	Adjustment of Other Income and Deductions	\$0	Note A
10.	Annual Production Fixed Cost	\$829,570,450	L.6 - L.7 - L.8 + L.9
11.	Monthly Peak Megawatts	77,323	2007 12 CP's
12.	Demand Charge	\$10.729 /kW	L 10 / L.11 / 1,000
13.	Loss Adjusted Monthly Demand at Peak	4,337,385 kW	Note B
14.	Annual Demand Revenue Requirement	\$46,534,236	L. 12 X L. 13
15.	Loss Adjusted Monthly Demand	4,400,399 kW	Note B
16.	Demand Charge @ Generation	\$10.575 /kW	L. 14 / L. 15
17	Transmission Loss Factor	1 0341	Note C
18	Transmission Voltage Demand Charge	\$10.936 /kW	L 16 X L. 17
19	Primary Loss Factor - Virginia Jurisdiction	1 0664	Note C
20	Primary Voltage Demand Charge - Virginia Jurisdiction	\$11.277 /kW	L 16 X L 17

Note A. From Accounting department

Note B Total customer demands adjusted for losses to generation

Note C. Losses pursuant to OATT and loss study

A-2
APPALACHIAN POWER COMPANY
DETERMINATION OF ENERGY RELATED COSTS AND
ENERGY CHARGE
COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30 2008 UPDATES
CONSUMPTION DATA BASED ON 12 MONTHS ENDED 12/31/07

		<u>Energy Related</u>	<u>Reference</u>
1	Total Fuel	\$669,437,839	P A-14, L 17, Col (4)
2	Purchased Power Energy (555)	\$625,351,088	P A-14, L 1, Col (4)
3	Other Production Expense	\$119,155,972	P A-14, L 4, Col (3)
4	Total Production Cost	\$1,413,944,899	Lines 1, 2 & 3
5	Less Off-System Sales for Resale Expenses	\$489,074,525	P A-4, L 3, Col (3)
6	Less Customer Share of Off-System Sales Margin	\$55,029,867	P A-4, L 4, Col (3)
7	Subtotal	\$869,840,507	L 4 - L 5 - L 6
8	Administrative & General Expense	\$33,180,297	P A-10, L 17, Col (5)
9	Return on Investment	\$28,483,959	P A-5, L 18, Col (3)
10	Depreciation Expense	\$5,836,536	P A-15, L 11, Col (3)
11	Taxes Other than Income Taxes	\$3,923,516	P A-16, L 12, Col (4)
12	Income Tax	\$8,835,848	P A-17, L 5, Col (3)
13	Annual Production Variable Costs	\$950,100,663	Lines 7 thru 12
14	Production Fuel Costs	\$750,684,535	P A-14, L 21, Col (4)
15	Non-Fuel Costs	\$199,416,128	L 13 - L 14
16	Net mWh Generated and Purchased, less OSS mWh Sold	40,339,370	2007 FERC FORM 1 p 401b
17	Energy Charge	\$0.0049435 /kWh	L 15 / L 16 / 1,000
18	Fuel Charge	\$0.0186092 /kWh	L 14 / L 16 / 1,000
19	Transmission Loss Factor	1.0341	P A-1, L 17
20	Transmission Voltage Energy Charge	\$0.0051121 /kWh	L 17 X L 19
21	Transmission Voltage Fuel Charge	\$0.0192438 /kWh	L 18 X L 19
22	Primary Loss Factor - Virginia Jurisdictions	1.0552	
23	Primary Voltage Energy Charge in Virginia	\$0.0052164 /kWh	L 17 X L 22
24	Primary Voltage Fuel Charge in Virginia	\$0.0195364 /kWh	L 18 X L 22

A-4

OFF-SYSTEM SALES REVENUES AND MARGIN

COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES

		Reference	Amount (1)	Demand (2)	Energy (3)
1	Off-System Sales Revenues	Note A	\$744,677,818	\$35,683,826	\$709,193,992
2	Less: Margins from Off-System Sales	Note B	255,803,293	35,683,826	220,119,467
3	Off-System Sales Expenses	L 1 - L 2	489,074,525	0	489,074,525
4	Customer Share of Margins	25% of L 2	63,950,823	8,920,957	55,029,867
		AEP Margins	191,852,470	26,762,869	165,089,600

Note A: Revenues associated with off-system sales as reported in Account 447
(FERC Form 1, Page 310-311, columns H & I, excluding RQ)

Note B: From Wholesale Commodity Accounting

A-5

RETURN ON PRODUCTION-RELATED INVESTMENT

COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES

	Reference	Amount (1)	Demand (2)	Energy (3)	
1	<u>ELECTRIC PLANT</u>				
2	Gross Plant in Service	P A-6, L 5, Col (2)	3,816,456,700	3,728,197,447	88,259,252
3	Less: Accumulated Depreciation	P A-6, L 14, Col (2)	1,741,450,287	1,696,020,224	45,430,063
4	Less: Accumulated Deferred Taxes	P A-6, L 15, Col (2)	309,932,387	302,068,835	7,863,551
5	Net Plant in Service	L 2 - (L 3 + L 4)	1,765,074,026	1,730,108,388	34,965,638
6	Plant Held for Future Use	Note A	1,085,069	1,085,069	0
7	Construction Work In Progress	Note A	735,989,742	735,989,742	0
8	Subtotal - Electric Plant	L 5+L 6+L 7	2,502,148,837	2,467,183,199	34,965,638
9	<u>WORKING CAPITAL</u>				
10	Materials & Supplies				
11	Fuel	P A-9, L 2, Col (3)	79,639,911	0	79,639,911
12	Nonfuel	P A-9, L 6, Col (3)	72,662,140	29,667,362	42,994,778
13	Total M & S	L 11 + L 12	152,302,051	29,667,362	122,634,689
14	Prepayments	Note B	13,850,941	13,499,517	351,424
15	Cash Requirements	P A-8, L 8, Col (1)	233,304,525	52,413,875	180,890,649
16	Total Investment	L 8+L 13+L 14+L 15	2,901,606,353	2,562,763,953	338,842,401
17	Composite Cost of Capital	P A-11, L 4, Col (4)	8.41%	8.41%	8.41%
18	Return on Investment	L 16 x L 17	243,916,454	215,432,494	28,483,959

Note A: Production amount only - Average Balance of Accounts 105 & 107 for Generation

Note B: Classified and functionalized using Gross Plant % from P A -6, L 8
Total Company Account 165 30,295,146

Average Balance of Prepayments	
Consol 165 Balance @ 12/31/06	53,141,852
Consol 165 Balance @ 12/31/07	7,448,440
Average Balance	30,295,146

FERC-1, P 111, L 57

Note: The decrease in this balance is due to a FASB 158 required entry in 2006 to mark the cash funded pension prepayment to a marked to market value to reflect true funded position of the pensions based on investment returns and actuarial values

June 30, 2008 Ending Balance

A-6
PRODUCTION-RELATED ELECTRIC PLANT IN SERVICE
COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES

	Reference	System Amount (1)	Amount (2)	PRODUCTION Demand (3)	Energy (4)
1	GROSS PLANT IN SERVICE				
2	Plant in Service	Note A	7,184,505,995	3,632,747,217	3,632,747,217
3	Generator Step-Ups included in Accts. 352 & 353 above		0	28,346,065	28,346,065
4	General & Intangible Plant	P A-7 L 21	279,313,304	155,363,418	67,104,165
5	Total	L 2 + L 3 + L 4	7,463,819,299	3,816,456,700	3,728,197,447
6	Percentage of Total		100.00%	45.72%	44.56%
7	ACCUMULATED PROVISION FOR DEPRECIATION				
8	Plant in Service	Note C	2,683,418,025	1,651,991,742	1,651,991,742
9	Adjustment to Depreciation Rate	Note D	0	0	0
10	Generator Step-Ups Included in Accts. 352 & 353 above		0	9,487,668	9,487,668
11	Adjustment to Depreciation Rate	Note D	0	0	0
12	General & Intangible Plant	Note B	143,772,132	79,970,877	34,540,814
13	Adjustment to Depreciation Rate	Note B, D	0	0	0
14	Total	L 8+L 9+L 10+ L 11+L 12+L 13	2,827,190,157	1,741,450,287	1,696,020,224
15	ACCUM DEFERRED TAXES	Note E	677,892,359	309,932,387	302,068,835

Note A: Gross Plant in Service is the average of beginning and ending year balances (FERC-1, P. 204 - 207)

Note B: % from P A-7 L 19, Cols (4) & (5)

Note C: Accumulated Depreciation is the average of beginning and ending year balances (FERC-1, P 219)

Note D: From Accounting Department

Note E: FERC-1, P 234 Ln 8 (Account 190); FERC-1 P272/273 Ln 6 (Account 281); FERC-1 P274/275 Ln 5 (Account 282); and FERC-1 p 276/277 Ln 9 (Account 283) - Allocated on Gross Plant in Service.

June 30, 2008 Ending Balance

A-7
PRODUCTION-RELATED GENERAL PLANT ALLOCATION
COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES

General Plant Accounts 101 and 106						
		Total System (1)	Allocation Factor (2)	Related to Production (1) x (2) (3)	Demand (4)	Energy (5)
1	GENERAL PLANT					
2	389 Land	15,487,759				
3	390 Structures	103,749,219				
4	391 Office Equipment	5,559,810				
5	392 Transportation Equipment	18,942				
6	393 Stores Equipment	962,600				
7	394 Tools Shop & Garage Equipment	15,244,360				
8	395 Lab Equipment	2,363,452				
9	396 Power Operated Equipment	3,662				
10	397 Communications Equipment	24,105,880				
11	398 Miscellaneous Equipment	4,125,211				
12	Subtotal	174,373,725	Note A	96,860,830	44,737,485	52,123,345
13	PERCENT of Subtotal	100.00%		55.55%	25.66%	29.89%
14	Other Tangible Property					
15	399.0 Other Tangible Property	(5,107,719)		(5,107,719)	(5,107,719)	0
16	399.1 AR Costs for Gen Plant	(4,311,700)		0	0	0
17	Total Other Tangible Property	(9,419,419)		(5,107,719)	(5,107,719)	0
18	TOTAL GENERAL PLANT	164,954,306	FERC-1 P.206	91,753,112	39,629,767	52,123,345
19	PERCENT of Total	100.00%		55.62%	24.02%	31.60%
20	Intangible Plant	114,358,998	FERC-1 P.204	63,610,306	27,474,399	36,135,907
21	General and Intangible Plant	279,313,304		155,363,418	67,104,165	88,259,252
Note A	Allocation factors based on wages and salaries in electric operations and maintenance expenses excluding administrative and general expenses			APCo	AEPSC Note B	Total
a	Total wages and salaries in electric O&M excluding A&G FERC-1 P.354 Column (b), L.25-L.24			101,077,153	46,068,644	147,145,797
b	Production wages and salaries in electric O&M FERC-1 P.354 Col.(b), L.18 (Note C)			56,929,786	24,806,520	81,736,305
c	Ratio (b/a)					55.55%
	Classification factors based on wages and salaries in electric operations and maintenance expenses excluding administrative and general expenses					
a	Production wages and salaries in electric O&M					81,736,305
b	Production demand-related wages and salaries			21,408,163	16,343,699	37,751,862
c	Ratio (b/a)					46.19%
Note B	From Accounting					
Note C	The total of APGo O&M production payroll includes amounts from the FERC Form 1, p354 line 20 for total production and additional amounts recorded for PJM costs in line 22. These line 22 amounts were part of production in previous calendar years.					
	June 30, 2008 Ending Balance					

A-8

PRODUCTION-RELATED CASH REQUIREMENT

COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30 2008 UPDATES

	Reference	PRODUCTION		
		Amount (1)	Demand (2)	Energy (3)
1 Fuel Expense	P A-14 I 17	669,437,839		669,437,839
2 Fuel Cash Requirements	45/360 x L 1	83,679,730		83,679,730
3 Purchased Power	P A-14 L 1	868,014,053	242,662,965	625,351,088
4 Purchased Power Cash Requirements	45/360 x L 3	108,501,757	30,332,871	78,168,886
5 Total O&M Excluding Fuel	P A-14 L 8	1,196,998,358	419,311,002	777,687,357
6 Other O&M Expense	L 5 - L 3	328,984,306	176,648,037	152,335,269
7 Other O&M Cash Requirements	45/360 x L 6	41,123,038	22,081,005	19,042,034
8 Total Cash Requirements	L 2 + L 4 + L 7	233,304,525	52,413,875	180,890,649

A-9

PRODUCTION-RELATED MATERIALS & SUPPLIES

COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES

	Reference	Total System (1)	Allocation Factor (2)	Related to Production (1) x (2) (3)	Demand (4)	Energy (5)
1. Material & Supplies						
2. Fuel (Acct 151 & 152)	FERC-1 P 110	79,639,911	D/A	79,639,911	0	79,639,911
3. Non-Fuel						
4. Allowances (Acct 158)	FERC-1 P 110	42,994,778	100%	42,994,778	0	42,994,778
5. Non-Fuel (Acct 154-157, 163) Functionalized on Gross Plant from P A-6 L-2	FERC-1 P 110, 111	58,673,320	50.56%	29,667,362	29,667,362	0
6. Total Non-Fuel	L 4 + L 5	101,668,098		72,662,140	29,667,362	42,994,778
7. Total Material & Supplies	L 2 + L 6	181,308,009		152,302,051	29,667,362	122,634,689

A-10

PRODUCTION-RELATED ADMINISTRATIVE & GENERAL EXPENSE ALLOCATION
COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES

	Account	System		Production				
		Reference	Amount (1)	Allocation Factor % (2)	Amount (3)	Demand (4)	Energy (5)	
1	ADMINISTRATIVE & GENERAL EXPENSE							
2	RELATED TO WAGES AND SALARIES							
3	A&G Salaries	920	FERC-1, P 322	33,265,042				
4	Office Supplies	921	FERC-1, P 322	4,728,612				
5	Adm. Expense Transfer - Cr	922	FERC-1, P 322	(4,817,955)				
6	Outside Services	923	FERC-1, P 323	30,770,983				
7	Injuries & Damages	925	FERC-1, P 323	6,919,557				
8	Employee Pensions & Benefits	926	FERC-1, P 323	21,499,955				
9	Franchise Requirements	927	FERC-1, P 323	0				
10	Duplicate Charges - Cr	929	FERC-1, P 323	(144,475)				
11	Miscellaneous General Expenses	930	FERC-1, P 323	8,684,006				
12	Rents	931	FERC-1, P 323	3,181,304				
13	Subtotal	Ls 3 thru 12		104,087,029	Note A	57,818,092	26,704,665	31,113,427
14	Property Insurance	924	FERC-1, P 323	3,299,503	Note B	2,773,427	2,773,427	0
15	Regulatory Comm. Expenses	928	FERC-1, P 351	1,076,327	Note C	1,076,327	1,076,327	0
16	Maintenance of General Plant	935	FERC-1, P 323	6,541,007	Note D	3,638,327	1,571,457	2,066,870
17	Total	Ls 13 thru 16		115,003,866		65,306,173	32,125,876	33,180,297

Note A: Allocation factor based on wages and salaries in electric operations and maintenance expenses, excluding administrative and general expenses - See Page A-7

Note B: From Accounting

Note C: Pg. 350

	System	Production	
		Demand	Energy
FERC - Annual Assessment	0	0	0
Va Environmental & Reliability Cost Recovery Pr	0	0	0
WV Rate Proceedings	0	0	0
Virginia Rate Proceedings	632,745	0	0
Virginia IGCC Filing	4,932	0	0
West Virginia IGCC Filing	1,655	0	0
Smith Mountain	710,397	710,397	0
Leesville Hydro	116,087	116,087	0
Claytor Hydro	104,932	104,932	0
Byllesby Buck Hydro	41,899	41,899	0
Marmet and London Hydro	52,717	52,717	0
Winfield Hydro	26,767	26,767	0
Reusens Hydro	18,746	18,746	0
Niagara Hydro	4,117	4,117	0
Misc	665	665	0
Total	1,715,659	1,076,327	0

Note D: Allocated on General Plant % from P A-7, L 19

A-11

COMPOSITE COST OF CAPITAL

COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES

		Reference	Total Company Average Capitalization		Cost of Capital	Composite Cost of Capital
			\$ (1)	% (2)	% (3)	(2 x 3) (4)
1	Long Term Debt	Note A	2,722,981,486	56.54%	5.51%	3.11%
2	Preferred Stock	Note B	18,519,112	0.38%	4.32%	0.02%
3	Common Stock	Note C	2,074,688,533	43.08%	12.25%	5.28%
4	Total		4,816,189,130	100.00%		8.4063%

Note A P A-12, L 4 Columns (1) and P A-12, L 5 (2)

Note B P A-13, L 1(e) and L 2

Note C Total Proprietary Capital (FERC-1, P 112, Line 16, Column (1) & (2))

(FERC-1, P 112, L 16, Columns (1) & (2))

2,093,207,645

Less Line 2 - Preferred Stock

18,519,112

Common Stock

2,074,688,533

A-12
AVERAGE LONG TERM DEBT
COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES

		Average Debt Balance (1)	Interest Booked (2)
1	Total (FERC-1 P. 112 & P. 117 - Account 427)	2 722 981 486	144 946 214
2	Preferred Stock With Mandatory Redemption (FERC-1, P. 257.2)	0	0
3	Amortization of Debt Discount and Expense (FERC-1 P. 117 Accounts 428 - 429.1)		4 956 206
4	Total (L. 1 - L. 2 + L. 3)	2 722 981 486	149 912 420
5	Embedded Costs = L. 4 Col. (2)/Col. (1)		5.51%

A-13

AVERAGE PREFERRED STOCK

COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES

		Reference	Amount
1	(a) Preferred Stock Dividends	FERC-1 P 118 L 29 (Account 437) & FERC-1 P 257 2	799,415
	b) Preferred Stock Issued	FERC-1 P 112 L 3	17,757,700
	(c) Premium on Preferred Stock	FERC-1 P 112 L 6 (Account 2070003)	751,412
	(d) Preferred Stock with Mandatory Redemption	FERC-1 P 257 2	0
	(e) Total Preferred Stock	L 1 (b) + L 1 (c) + L 1 (d)	18,519,112
2	Average Cost Rate	L 1 (a)/L 1 (e)	4.32%

A-14
ANNUAL FIXED COSTS
PRODUCTION O & M EXPENSE
EXCLUDING FUEL USED IN ELECTRIC GENERATION
COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES

	Account No	Total Company (1)	(Demand) Fixed (2)	(Energy)	
				Non-Fuel Variable (3)	Fuel (4)
1 Purchased Power	555	868,014,053	242,662,965	0	625,351,088
2 System Control of Load Dispatching (FERC Form-1, P 32)	Note D	17,704,743	17,704,743	0	0
3 Other Production Expenses (FERC Form-1, P 321)	557	13,010,907	13,010,907	0	0
4 Other Production Expenses	Note A	232,784,352	113,628,380	119,155,972	0
5 Total Production Expense Excluding Fuel Used in Electric Generation above		1,131,514,055	387,006,995	119,155,972	625,351,088
6 A & G Expense P 10, L 17		65,306,173	32,125,876	33,180,297	0
7 Generator Step Up related O&M	Note B	178,131	178,131	0	0
8 Total O & M Excluding Fuel		1,196,998,358	419,311,002	152,336,269	625,351,088
9 Fuel - Account 501 (FERC Form-1, P 320)	501	674,056,867			674,056,867
10 Less Fuel Handling		17,041,430			17,041,430
11 Less Lignite Handling		0			0
12 Less Sale of Fly Ash (Revenue & Expense)		(201,706)			(201,706)
13 Plus Account 518	518	0			0
14 Plus Account 547	547	12,220,696			12,220,696
15 Less Pre 4/7/83 Spent Nuclear Fuel	Note C	0			0
16 Plus Pre 4/7/83 Spent Nuclear Fuel - Study		0			0
17 Total Fuel	524,202,551	669,437,839			669,437,839
18 Total - Production O&M	L 5 + L 17	1,800,951,894	387,006,995	152,336,269	1,294,788,927
19 Less Off-System Sales Revenues (P A-4, L 1)					709,193,992
20 Plus Company Share of Margins (P A-4, L 2 - L 4)					165,089,600
21 Total Fuel Costs					750,684,535
22 Plus Nuclear Decomm Expense - ARO	P A-14(a)	0			
23 Less Nuclear Decommissioning Adjustment	P A-14(a)	0			
24 Less Spent Nuclear Fuel Adjustment	L 16- L 15	0			
25 Check Total - Perbooks Production O&M	FERC P 321	1,800,951,894			

Note A: Classified into Fixed and Variable Components in accordance with P A-14(a)

Note B: FERC-1, P 321 (Accounts 562, 569 & 570) allocated on Gross Plant ratio - GSU to total

Note C: Accounts 5180004 & 5180005

Note D: During 2006, PJM expenses were recorded in account 556 or in the following new accounts, which were created pursuant to FERC Order 868

Scheduling, System Control and Dispatch Services (FERC Form-1, P 321)	561,4
Reliability Planning and Standards Development Services (FERC Form-1, P 321)	561,8
Market Facilitation, Monitoring and Compliance Services (FERC Form-1, P 322)	575,7
System Control And Load Dispatching	556

A-14(a)
CLASSIFICATION OF FIXED AND VARIABLE PRODUCTION EXPENSES
COST DATA BASED ON 12 MONTHS ENDED 12/31, 2007 WITH JUNE 30, 2008 UPDATES

Line No	Description	FERC Account No	Demand Related	Energy Related
1	Operation supervision and engineering	500	15,011,634	-
2	Fuel	501	-	-
3	Fuel Handling	501 xx	-	17,041,430
4	Lignite Handling	501 xx	-	0
5	Sale of Fly Ash (Revenue & Expense)	501 xx	-	(201,706)
6	Steam expenses	502	27,294,295	-
7	Steam from other sources	503	-	-
8	Steam transferred-Cr	504	-	-
9	Electric expenses	505	1,097,803	-
10	Miscellaneous steam power expenses	506	47,347,373	-
11	Rents	507	38,377	-
12	Allowances	509	-	6,887,819
13	Maintenance supervision and engineering	510	-	7,055,550
14	Maintenance of structures	511	6,910,095	-
15	Maintenance of boiler plant	512	-	72,037,478
16	Maintenance of electric plant	513	-	12,229,481
17	Maintenance of miscellaneous steam plant	514	8,044,730	-
18	Total steam power generation expenses	220,804,359	105,744,307	115,060,052
19	Operation supervision and engineering	517	-	-
20	Coolants and Water	519	-	-
21	Steam expenses	520	-	-
22	Steam from other sources	521	-	-
23	Steam transferred-Cr	522	-	-
24	Electric expenses	523	-	-
25	Miscellaneous nuclear power expenses	524	-	-
26	Rents	525	-	-
27	Total nuclear power generation operation expenses		0	0
28	Maintenance supervision and engineering	528	-	-
29	Maintenance of structures	529	-	-
30	Maintenance of Reactor plant equipment	530	-	-
31	Maintenance of electric plant	531	-	-
32	Maintenance of miscellaneous nuclear plant	532	-	-
33	Total nuclear power generation maintenance expenses		0	0
34	Operation supervision and engineering	535	881,392	-
35	Water for power	536	31,831	-
36	Hydraulic expenses	537	813,963	-
37	Electric expenses	538	136,115	-
38	Misc. hydraulic power generation expenses	539	1,875,729	-
39	Rents	540	344,451	-
40	Maintenance supervision and engineering	541	72,587	-
41	Maintenance of structures	542	543,374	-
42	Maintenance of reservoirs, dams and waterways	543	1,629,711	-
43	Maintenance of electric plant	544	0	4,095,920
44	Maintenance of miscellaneous hydraulic plant	545	368,275	-
45	Total hydraulic power generation expenses		6,697,428	4,095,920
46	Operation supervision and engineering	546	141,089	-
47	Fuel	547	0	0
48	Generation expenses	548	273,160	-
49	Miscellaneous other power generation expenses	549	418,208	-
50	Rents	550	0	-
51	Maintenance supervision and engineering	551	18,921	-
52	Maintenance of structures	552	0	-
53	Maintenance of generation and electric plant	553	143,423	-
54	Maintenance of misc. other power generation plant	554	151,844	-
55	Total other power generation expenses		1,186,645	0
56	TOTAL OTHER PRODUCTION EXPENSES		113,628,380	119,155,972

A-15

PRODUCTION-RELATED DEPRECIATION EXPENSE

COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES

			Production Related (1)	Demand (2)	Energy (3)
1	Steam Production Plant	Note A	67,802,483	67,802,483	0
2	Hydro Production Plant Conventional	Note A	1,452,760	1,452,760	0
3	Pump Storage	Note A	1,426,294	1,426,294	0
4	Other Production	Note A	2,841,165	2,841,165	0
5	Production Subtotal		73,522,702	73,522,702	0
6	Adjustment to Depreciation Rate	Note B	0	0	0
7	Production-Related Gen. & Int. Plant	Note C	10,274,098	4,437,562	5,836,536
8	Adjustment to Depreciation Rate	Note B, C	0	0	0
9	GSU-related Depreciation Expense	Note B	559,581	559,581	0
10	Adjustment to Depreciation Rate	Note B	0	0	0
11	Total Production		84,356,381	78,519,845	5,836,536

Note A: Lines 1 through 5 are Depreciation Expense reported on page 336 of the
FERC Form No. 1 for Accounts 403, 403.1, 404 and 405

Note B: From Accounting.

Note C: General and Intangible Plant Depreciation Expense 18,470,837 FERC-1 P. 336 Col. (f)
Production-Related % 55.62% Page A-7 L. 19 Col. (3)
Gen. Plant Depr. Exp. - Prod. Related 10,274,098

Allocation of Production Related Gen. & Int. Plant Depreciation is based on the allocation
of Production Related General & Intangible Plant Balances on P. A-7, line 19

A-16

PRODUCTION-RELATED TAXES OTHER THAN INCOME TAXES
COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES

		REFERENCE	SYSTEM AMOUNT (1)	%	PRODUCTION AMOUNT (2)	DEMAND (3)	ENERGY (4)
TAXES RELATED TO PRODUCTION WAGES AND SALARIES							
1	State Unemployment	Note A	1,57,231				
2	Federal Social Security & Unemployment	Note A	8,086,290				
3	Total Taxes Related to Wages & Salaries		8,223,521	Note B	4,567,988	2,109,834	2,458,154
4	Real and Personal Property Tax	Note A	40,456,441	Note C	18,496,685	18,027,390	469,295
5	Franchise Tax	Note A	(1,325,812)	Note C	(606,161)	(590,782)	(15,379)
6	Business & Occupation Taxes	Note A	36,913,374	Note D	36,913,374	35,976,814	936,560
7	Total Taxes Related to Production Plant	L 4 + L 5 + L 6	76,044,003		54,803,898	53,413,423	1,390,475
8	Total Taxes Other Than Income Taxes	L 3 + L 7	84,267,524		59,371,886	55,523,257	3,848,629
<u>Misc. & State Commission Assessments</u>							
9	Sales & Use Taxes	Note A	1,014,016	Note C	463,608	451,846	11,763
10	WV Public Service Commission	Note A	3,715,513	Note C	1,698,733	1,655,633	43,100
11	Other Misc Taxes	Note A	1,726,298	Note C	789,263	769,238	20,025
12	Check Total - Taxes Other	FERC-1 P 114	90,723,351		62,323,490	58,399,974	3,923,516

Note A: Taxes other than Income Taxes will be those reported in FERC-1,
pages 262 & 263 as listed above

Note B: Allocation to production based on wages and salaries in electric operations and
maintenance expenses, excluding administrative and general expenses
- See Page A-7

Note C: Allocation to production based on gross plant in service - See Page A-6

Note D: Assigned entirely to production. Allocation to Demand based on
gross plant in service

Allocation % to		
Production	Demand	Energy

55.55% 46.19% 53.81%

45.72% 97.46% 2.54%

100.00% 97.46% 2.54%

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PRODUCTION-RELATED INCOME TAX

COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES

	Reference	Amount (1)	Demand (2)	Energy (3)
1 Return on Investment	P A-5 L 18 Col (1)	243,916,454	215,432,494	28,483,959
2 Interest	P A-5 L 16 X P A-11 L 1 Col (4)	90,317,639	79,770,569	10,547,070
3 Balance for Equity Earnings	L 1 - L 2	153,598,815	135,661,925	17,936,889
4 Combined Income Tax Factor	P A-18 L 17	0.49261	0.49261	0.49261
5 Income Tax	L 4 x L 3	75,663,942	66,828,093	8,835,848

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COMPUTATION OF EFFECTIVE INCOME TAX RATE

COST DATA BASED ON 12 MONTHS ENDED 12/31/2007 WITH JUNE 30, 2008 UPDATES

	REFERENCE	AMOUNT
1 Net income before Extraordinary	FERC-1 P 117 Ln 71	133,499,589
2 Less: Allowance for Funds Used During Construction (AFUDC)	FERC-1 P 117 Acct 419 Ln 38	7,337,269
3 Adjusted Net Income	Line 1 - Line 2	126,162,320
Income Taxes		
4 Federal	FERC-1 P 114 Acct 409 Ln 15	16,919,033
5 Other	FERC-1 P 114 Acct 409 Ln 15	(4,068,677)
6 Provision for Deferred Inc. Taxes	FERC-1 P 114, Acct 410 Ln 17	350,559,127
7 Provision for Def. Inc. Taxes-Cr	FERC-1 P 114 Acct 411 Ln 18	(301,832,563)
8 Investment Tax Cr. Adjustment Net	FERC-1 P 114 Acct 411 Ln 19	(2,796,088)
Taxes Applicable to Other Income and Deductions:		
9 Income Taxes - Federal	FERC-1 P 117 Acct 409 Ln 53	4,410,634
10 Income Taxes - Other	FERC-1 P 117 Acct 409 Ln 54	0
11 Provision for Deferred Inc. Taxes	FERC-1 P 117 Acct 410 Ln 55	17,914,123
12 Provision for Deferred Inc. Taxes - credit	FERC-1 P 117 Acct 411 Ln 56	(17,651,486)
13 Investment Tax Credit Adj. - Net	FERC-1 P 117 Acct 411 Ln 57	(1,305,587)
14 Total Income Taxes	Lines 4 thru 13	62,148,516
15 Pretax Earnings Base	Line 3 + 14	188,310,836
16 Effective Income Tax Rate	Line 14 / Line 15	33.00%
17 Combined Tax Factor	Line 16 / (100 - Line 16)	0.49261

Exhibit II

Sales and Revenues Data

APPALACHIAN POWER COMPANY
KINGSPORT POWER COMPANY
Bills at Current Rates
12 Months Ended 12/31/2007

Month-Year	Billing Demand kW 1/	Energy Billing in KWH's 1/	Demand	Energy	Fuel	Fuel Adjustment 2/	Back-up Service	Total Bill	\$/MWH
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	(100d)	(100d)	(112)	(121 X)	(121 X)	(121 X)	(31 41)	(131+41+51+61+71)	(61121)
			\$4,480	\$0,004,427.5	\$0,014,712.6				
January 2007	38440.3	183425.708	\$1,722,125.44	\$812,130.60	\$2,698,713.21	\$238,457	\$14,227	\$5,485,653.57	29.91
February 2007	41367.0	204014.211	\$1,884,601.60	\$903,450.28	\$3,002,168.87	\$188,873	\$14,227	\$5,993,320.38	29.37
March 2007	35985.4	172614.338	\$1,612,145.92	\$795,548.69	\$2,643,611.43	\$433,468	\$14,227	\$5,495,001.51	30.60
April 2007	43326	168139.750	\$1,493,309.44	\$744,438.92	\$2,473,773.47	\$287,973	\$14,227	\$5,013,721.85	29.82
May 2007	30662.1	172235.24	\$1,384,414.08	\$762,652.48	\$2,534,297.20	\$309,453	\$14,227	\$5,005,044.21	29.06
June 2007	39301.2	161450.7	\$1,518,773.76	\$803,392.13	\$2,669,675.23	\$288,967	\$14,227	\$5,295,035.25	29.18
July 2007	38478	190792.961	\$1,507,421.44	\$844,735.83	\$2,807,060.52	\$449,909	\$14,227	\$5,623,353.67	29.47
August 2007	461216	216113.25	\$1,618,247.68	\$936,920.65	\$3,113,391.03	\$511,958	\$14,227	\$6,194,743.84	29.27
September 2007	112362	188056.918	\$1,488,936.96	\$810,497.79	\$2,693,287.35	\$530,306	\$14,227	\$5,537,255.38	30.25
October 2007	21097.4	170576.038	\$1,330,443.52	\$755,242.68	\$2,509,674.40	\$433,137	\$14,227	\$5,042,724.17	29.56
November 2007	331261	164492.863	\$1,512,228.48	\$816,842.15	\$2,714,369.70	\$432,230	\$14,227	\$5,489,897.21	29.76
December 2007	40436.5	20188.454	\$1,810,300.80	\$902,707.28	\$2,999,699.84	\$328,808	\$14,227	\$6,055,742.80	29.70
Total	4,214,944	2,233,440,877	\$18,862,949.12	\$9,888,559.48	\$32,859,722.25	\$4,433,538.90	\$170,724.00	\$66,235,493.75	29.66

1/ Based on actual usage for twelve months ended December 31, 2007

2/ Actual monthly fuel rate adjustments for 2007

3. Back up Service Revenue normalized for current services provided

**APPALACHIAN POWER COMPANY
KINGSPORT POWER COMPANY**
Estimated Billing Based Upon Generation Settlement Rates
12 Months Ended 12/31/2009

Month-Year	Billing Demand kW	Energy Billing in KWH's 1/	Demand	Energy	Fuel	Fuel Adjustment 2/	Back-up Service	Total Bill	\$/MWH
	(1) (Input)	(2) (Input)	(3) (1) X	(4) (2) X	(5) (2) X	(6) (2) X	(7) 3/	(8) (3)+(4)+(5)+(6)+(7)	(9) (8)/(2)
January 2009	12443.3	18342870.8	\$9,872	\$0.0049648	\$0.0147126	\$0.0019851			
February 2009	4206.70	20405427.1	\$3,794,826.42	\$910,686.85	\$2,698,713.21	\$364,119	\$20,238	\$7,783,583.10	42.46
March 2009	3946.54	17568349.8	\$4,152,854.24	\$1,013,088.64	\$3,002,168.87	\$405,062	\$20,238	\$8,593,411.58	42.11
April 2009	3333.18	16813579.9	\$3,552,478.69	\$892,092.63	\$2,643,611.43	\$356,685	\$20,238	\$7,465,104.87	41.55
May 2009	3333.18	17225352.4	\$3,290,614.02	\$834,780.43	\$2,473,773.47	\$333,769	\$20,238	\$6,953,174.95	41.35
June 2009	3333.18	18145502.7	\$3,050,655.31	\$855,204.30	\$2,534,297.20	\$341,935	\$20,238	\$6,802,329.89	39.49
July 2009	3344.48	19075496.1	\$3,346,726.46	\$900,887.92	\$2,669,675.23	\$360,201	\$20,238	\$7,291,728.34	40.22
August 2009	3612.16	21116392.5	\$3,321,710.82	\$947,248.89	\$2,807,060.52	\$378,738	\$20,238	\$7,474,995.42	39.18
September 2009	4343.2	18000978.1	\$3,565,924.35	\$1,050,620.81	\$3,113,391.03	\$420,069	\$20,238	\$8,170,242.48	38.61
October 2009	3946.74	17057394.8	\$3,280,978.94	\$908,855.88	\$2,693,287.35	\$363,387	\$20,238	\$7,266,746.72	39.70
November 2009	3333.1	18449785.3	\$2,931,727.33	\$846,895.28	\$2,509,674.40	\$338,613	\$20,238	\$6,647,147.90	38.97
December 2009	4343.85	20388454.4	\$3,332,303.47	\$915,970.17	\$2,714,369.70	\$366,231	\$20,238	\$7,349,112.38	39.83
total	4214.944	2333440.877	\$41,609,927.17	\$11,088,587.27	\$32,859,722.25	\$4,433,538.90	\$242,851.20	\$90,234,626.78	40.40

1/ Estimate based on actual usage for twelve months ended December 31, 2007

2/ Fuel rates adjust monthly pursuant to Article 9 of the Amended Contract. Average of the monthly fuel rate adjustments for 2007

3/ Back-up Service Revenue = ((1) * .05) * (2) * 1000 + ((1) * 10) * 10000

Exhibit III

Certificate of Concurrence

Certificate of Concurrence

This is to certify that, as evidenced by the signature of its authorized representative on the November 13, 2008 Amended and Restated Interconnection Agreement (Amended Agreement) between Appalachian Power Company (APCo) and Kingsport Power Company (Kingsport), which has been designated by APCo as Appalachian Power Company First Revised FERC Rate Schedule No. 23 (Revised Rate Schedule 23), APCo has obtained the agreement of Kingsport to Revised Rate Schedule 23. Kingsport requests that, if at all possible, any order accepting Revised Rate Schedule 23 for filing be issued by December 12, 2008, so that Kingsport can notify the Tennessee Regulatory Authority (TRA) of the Federal Energy Regulatory Commission's action regarding the effective date of the Amended Agreement, prior to the TRA's last conference in 2008, which is scheduled for Monday, December 15, 2008.

Kingsport Power Company
(Kingsport)

By: Brian X. Tierney

Name: Brian X. Tierney

Title: Vice President

Date: 13 November 2008

Exhibit IV

Settlement Agreement

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into and effective this 13th day of November 2008, by and between Appalachian Power Company ("APCo") and Kingsport Power Company ("KgPCo") (collectively the "AEP Companies"), and the East Tennessee Energy Consumers, a group of KgPCo's retail industrial customers consisting of Eastman Chemical Company, Domtar Paper Company, LLC, Air Products and Chemicals, Inc., BAE Systems Ordnance Systems, Inc., AGC Flat Glass North America, and Wellmont Health Systems (collectively "ETEC"). The AEP Companies and ETEC may be referred to individually as a "Party" and collectively as the Parties."

W I T N E S S E T H

WHEREAS, APCo and KgPCo are electric operating company subsidiaries of American Electric Power Company, Inc ("AEP"), and part of the east zone of the AEP System ("AEP-East System"); and

WHEREAS, KgPCo provides electric service to retail customers in the State of Tennessee under tariffs that are subject to the jurisdiction of the Tennessee Regulatory Authority ("TRA"); and

WHEREAS, ETEC is a group of retail industrial customers of KgPCo; and

WHEREAS, in order to meet the electric requirements of its retail customers, KgPCo purchases wholesale electric service from APCo at rates and terms on file with the Federal Energy Regulatory Commission ("FERC"); and

WHEREAS, APCo currently provides wholesale electric service to KgPCo under a full requirements agreement originally entered into on November 19,

1954, as such agreement has been amended from time to time ("1954 Agreement"); and

WHEREAS, on March 28, 2008, APCo filed with FERC a new agreement for wholesale service to KgPCo ("2008 Agreement"), with a proposed effective date of July 1, 2008, which was intended to replace and supersede, in its entirety, the 1954 Agreement; and

WHEREAS, on behalf of its members, ETEC filed with FERC a protest challenging the reasonableness of the rates set forth in the 2008 Agreement; and

WHEREAS, APCo withdrew the filing of the 2008 Agreement in order to permit the Parties additional time to address concerns raised in ETEC's FERC protest; and

WHEREAS, the Parties have agreed to the rates and terms under which APCo will provide wholesale electric service to KgPCo, as more fully described herein, and certain changes that KgPCo will propose to its Purchased Power Adjustment Rider on file at the TRA, which is the subject of a separate settlement agreement.

NOW THEREFORE, in consideration of the premises and covenants set forth in this Settlement Agreement, and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the Parties, each intending to be legally bound, hereby agree as follows:

I. WHOLESALE RATE PROVISIONS

1.1 APCo will propose that FERC approve or accept an amended and restated 1954 Agreement, presented in accordance with FERC Order No. 614,

which includes generation rates for service to KgPCo ("Settlement Rates") designed in accordance with the following principles:

1.1.1 The Settlement Rates will be established for an initial period of three contract years, with separately stated Settlement Rates for each of "Contract Year 1," "Contract Year 2," and "Contract Year 3." Contract Year 1 will run from January 1, 2009, through December 31, 2009. Contract Year 2 will run from January 1, 2010, through December 31, 2010. Contract Year 3 will run from January 1, 2011, through December 31, 2011.

1.1.2 The Settlement Rates are designed to recover APCo's total annual base generation revenue requirement (total revenues less fuel and transmission service revenues).

1.1.3 The Settlement Rates will increase the generation rates currently charged under the 1954 Agreement ("Current Rates") as follows: The Contract Year 1 Settlement Rates are designed to produce generation revenues that are \$24 million higher than the generation revenues produced under the Current Rates. The Contract Year 2 Settlement Rates are designed to produce generation revenues that are \$27 million higher than the generation revenues produced under the Current Rates. The Contract Year 3 Settlement Rates are designed to produce generation revenues that are \$36 million higher than the generation revenues produced under the Current Rates. These generation revenue increases will be allocated 95% to APCo's demand charge and 5% to APCo's energy charge. The per-unit Settlement Rates for each Contract Year are set out in Attachment A hereto.

1.1.4 KgPCo shall pay for Network Integration Transmission Service ("NITS") and other applicable transmission-related services (other than generation-based Ancillary Services), as arranged by the AEP East System, in accordance with the provisions of the PJM Open Access Transmission Service Tariff ("OATT"), or other applicable FERC rate schedules, as such rate schedules, which may be revised from time to time, apply to the AEP East System companies

1.2 ETEC agrees that APCo may represent to FERC that ETEC supports APCo's request that FERC approve or accept the restated and amended 1954 Agreement and the rates set forth therein. ETEC further agrees that APCo will file cost support for the Settlement Rates; however, it is explicitly recognized and acknowledged that ETEC does not agree, and APCo will not represent that ETEC agrees, to any specific rate principle or the reasonableness of any specific cost item, including but not limited to the rate of return on common equity used in such cost support.

1.3 APCo will propose to FERC that the amended and restated 1954 Agreement, including the rates set forth therein, be permitted to become effective on January 1, 2009. The Parties will work together and cooperate in good faith to prepare the necessary documents to be filed with FERC, and ETEC agrees to support the effective date requested in APCo's FERC filing.

1.4 Notwithstanding anything in the amended and restated 1954 Agreement to the contrary, neither Party shall have a right unilaterally to request that FERC change the Settlement Rates where such change would become

effective prior to January 1, 2012, and neither Party shall lend any assistance or support to any third party that seeks from FERC a change to the Settlement Rates that would become effective prior to January 1, 2012. Either Party shall have the right to make a filing with FERC, under Section 205 or 206 of the Federal Power Act, proposing that the Settlement Rates be changed, provided that such filing does not request that the proposed change be made effective prior to January 1, 2012. Should a Party propose to change the Settlement Rates in accordance with the provisions of the second sentence of this Section 1.4, the other Party shall have any and all rights available to it to oppose such proposed change.

II. GENERAL SETTLEMENT PROVISIONS

2.1 The making of this Settlement Agreement shall not be deemed in any respect to constitute an admission by a Party that any allegation or contention made or raised by either Party in connection with any of the matters set out in this Settlement Agreement, is true or valid. A Final Order by FERC accepting or approving the amended and restated 1954 Agreement, including the rates set forth therein, shall not constitute a determination by FERC as to the merits of any allegation or contention previously made or raised by either Party.

2.2 The Settlement Agreement constitutes a negotiated settlement between the Parties and, other than as explicitly provided herein, shall not be regarded as establishing any principles or precedents and shall not be deemed to foreclose the Parties from making any contention in any future proceeding as to matters not explicitly addressed in this Settlement Agreement.


2.3 This Settlement Agreement embodies the entire final agreement and understanding of the Parties with respect to the matters covered herein, and supersedes any prior drafts, understandings or agreements, oral or written, with respect thereto. There are no restrictions, promises, representations, warranties, covenants or undertakings with respect to the matters covered herein, other than those expressly set forth in this Settlement Agreement.

2.4 The discussions between the Parties that produced this Settlement Agreement have been conducted with the explicit understanding and agreement that all offers of settlement and discussions relating thereto are and shall be privileged to the extent allowed by law, shall be without prejudice to the positions of a Party presenting any such offer or participating in any such discussion, and are not to be used in any manner, except as strictly necessary to enforce the terms of this Settlement Agreement. This Settlement Agreement is agreed to on the express condition that the Parties agree to withdraw the Settlement Agreement in the event that FERC does not accept or approve the amended and restated 1954 Agreement, including the rates set forth therein, without conditions or modifications that are not acceptable to either Party. In such event, the withdrawn Settlement Agreement shall not be used for any other purpose.

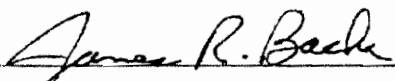
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The Parties have caused this Settlement Agreement to be executed this 13th day of November, 2008, by their respective duly authorized representatives. The Settlement Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which shall together constitute one and the same Settlement Agreement. The Settlement Agreement shall not be deemed to have been executed by either Party until it has been executed by both Parties.

EAST TENNESSEE ENERGY CONSUMERS

By: 
Name: EDWARD L. PETRINI
Title: COUNSEL
Date: NOVEMBER 13, 2008

AEP COMPANIES

By: 
Name: JAMES R. BACHA
Title: COUNSEL
Date: 13 NOVEMBER 2008

SETTLEMENT AGREEMENT
Attachment A

Appalachian Power Company
Calculation of Demand and Energy Rates
to Kingsport Power Company Reflecting Settlement

Year 1

	2007 Billing Determinants	Current Rates	2007 Revenues	Proposed Increase	Proposed Revenue Requirement	Proposed Rate	Total Energy Charge (Includes Fuel Base)
Demand	4214944	4.488	\$18,882,949	\$22,727,838	\$41,610,817	\$9.872	
Energy	2233448377	0.0844275	\$18,888,568	\$1,700,800	\$11,088,559	\$0.0048848	\$0.0198774
Fuel			\$37,293,038		\$37,283,038		
Generation Total		\$	\$86,064,547	\$24,937,968	\$89,992,414		
Level A	21990	0.347	\$7,644	\$38,948	\$174,398	\$0.894	
Level B	10099	0.894	\$8,320	\$35,187	\$118,467	\$0.987	
Recalculation of Demand Rate			\$170,724	\$24,800,900			

Year 2

	2007 Billing Determinants	Current Rates	2007 Revenues	Proposed Increase	Proposed Revenue Requirement	Proposed Rate	Total Energy Charge (Includes Fuel Base)
Demand	4214944	4.488	\$18,882,949	\$25,641,339	\$44,444,288	\$10.541	
Energy	2233448377	0.0844275	\$18,888,568	\$1,240,998	\$11,238,559	\$0.0050319	\$0.0197445
Fuel			\$37,293,038		\$37,283,038		
Generation Total		\$	\$86,064,547	\$26,911,330	\$92,975,877		
Level A	21990	0.347	\$7,644	\$16,816	\$132,880	\$0.627	
Level B	10099	0.894	\$8,320	\$45,283	\$128,553	\$1.054	
Recalculation of Demand Rate			\$170,724	\$27,008,088			

Year 3

	2007 Billing Determinants	Current Rates	2007 Revenues	Proposed Increase	Proposed Revenue Requirement	Proposed Rate	Total Energy Charge (Includes Fuel Base)
Demand	4214944	4.488	\$18,882,949	\$14,061,718	\$52,944,668	\$12.561	
Energy	2233448377	0.0844275	\$18,888,568	\$1,800,008	\$11,688,569	\$0.0052334	\$0.0199480
Fuel			\$37,293,038		\$37,283,038		
Generation Total		\$	\$86,064,547	\$35,861,719	\$101,926,266		
Level A	21990	0.347	\$7,644	\$12,627	\$158,271	\$0.728	
Level B	10099	0.894	\$8,320	\$87,434	\$150,734	\$1.258	
Recalculation of Demand Rate			\$170,724	\$28,006,080			